American Banker
SPECIAL REPORT

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CORPORATE AMERICA SPEAKS

What Companies Want From Their Banks

PREMIER SURVEY 1988

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Dear Reader:

One of the most important things any specialized newspaper worth its salt must do is ensure that its readers don't end up just hearing what they want to hear or reading the same comfortable thoughts from the same tired sources. This means a publication must go out of its way to bring in new voices and ideas. And for that reason, early this year *American Banker* initiated a survey of Corporate America to help our readers hear what's on the minds of their corporate customers and to understand more fully how the banking industry is perceived.

To that end, we commissioned Trans Data Corp., our research affiliate, to conduct phone interviews this past spring with executives of more than 400 middle-market and large corporations to assess their opinions on a broad range of subjects. We asked them, for example, about how much confidence they have in the U.S. banking and financial system; how effective the competitors to commercial banks are; how good the quality of service that corporations get from their banks is; how cutbacks at financial institutions have affected business relationships; and how corporate executives regard the financing of hostile takeovers and the new development of asset securitization.

The results of this special report, which was analyzed by our team of corporate finance reporters, point to a great reservoir of good will on the part of corporate executives toward banks. They also point to areas of opportunity where banks can do a better job.

Business people, for example, want to see greater personal service and contact between bank account officers and themselves; they want banks to understand their enterprises better; and they are concerned that bank cutbacks and restructurings may hurt service. The survey findings also underscore the desire for direct deposit and electronic services by corporations, and the potential use of investment banking services by middle-market companies.

The process of going out of our way to talk to bank customers is not something new for *American Banker*. For the past few years, we have polled American consumers for our annual Consumer Survey (this year's will be published in a special magazine report in October.)

Launching this new Corporate America Survey is part of an effort *American Banker* initiated last year to cover more fully the efforts by banks in expanding the range of services they are providing corporations. Such coverage is perhaps best illustrated in our weekly Corporate Finance section, which appears each Tuesday and is written by the same reporters who developed and reported this survey.

After you read through this special report, would you take a moment or two to fill in our Dear Reader questionnaire on page 29 to offer us some input on whether or not this year's Corporate America Survey was useful to you? Please indicate what you found to be helpful, what was not, and what we can do to make the next one even better.

You see, just as you need to hear the voices of your customers to do a better job, so does *American Banker* need to hear the voices of our readers — even when what you tell us may not necessarily be pleasing to our ears or what we want to hear. But if we are to become better in our work and serve you more effectively, then we must seek you out and listen to what you have to tell us. In this way, we stay alive and healthy.

Many thanks, and here's to good reading!

Sincerely,

William E. Zimmerman

William Zimmerman
Editor

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How the Survey Was Conducted

The first American Banker *Corporate America Survey is based on telephone interviews with executives of 413 randomly selected companies, none of which are financial services firms.*

Trans Data Corp., a Salisbury, Md., research affiliate of the American Banker, *developed the survey questionnaire in collaboration with the newspaper's editors and reporters. Trans Data conducted the interviews, tabulated the responses, and assisted in the preliminary analysis that led to this publication.*

The interviews were conducted in March and April with the executives responsible for choosing the financial services and institutions their companies use.

The survey was divided into two groups: a middle-market sample of 205 companies with revenues between $10 million and $250 million, and a large-corporation sample of 208 companies with annual revenues of $250 million or more. Within those two groups, companies were randomly selected from a universe of 80,531 middle-market companies and 3,010 large corporations.

The sample has a margin of error of plus or minus five percentage points with a 90% confidence level. That means if 60% of the companies give a response, there is a 90% probability that the actual percentage is between 55% and 65%. This margin of error applies to the total sample. Subgroups with smaller sample sizes have greater margins of error.

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We have become a trusted financial advisor to many clients, providing everything from cash management to risk management. This keeps us constantly abreast of your overall financial plans.

So when special opportunities arise—a recapitalization, a merger, an acquisition—we are perfectly positioned to help you take advantage of them. There is no learning curve to climb, no long-term objectives to be identified.

Solid merchant banking relationships have never been more productive than in the uncertain world of today.

Bankers Trust Company

Because today isn't yesterday.

Executives Generally Pleased With Banking Relationships

While few officials had big complaints, service and confidence in the banking system are sore points.

BY DAVID NEUSTADT

The first annual *American Banker* Corporate America Survey turned up a veritable love fest between companies and their banks. Assured of anonymity and given the chance to talk openly about their banks, executives had little bad to say.

Trans Data Corp., a market research firm that is affiliated with the *American Banker*, polled 413 companies with revenues over $10 million in April and May. Financial executives at those companies were asked a series of questions about their relationships with their banks and other financial institutions.

For analytical purposes, the responses were divided into two groups: the middle market, companies with revenues of $10 million to $249 million, and the large corporate market, companies with revenues over $250 million.

The study found some areas of opportunity for banks. Companies are eager for direct deposit and other electronic data transfer services, and many are open to having banking services provided in the workplace. Also many companies, especially in the middle market, do not currently make use of investment banking services, which could provide a prime market for commercial banks getting into this new area of business. And all companies, middle market and large corporate, see commercial banks as the best financial institutions to handle securitization — bundling assets such as receivables and selling them to investors.

But it would be a mistake for banks to be complacent. The study found signs of increasing competition from other types of financial services companies, some significant areas of discontent, and a decrease of confidence in the banking system.

Virtually all the companies surveyed use commercial banks, and 93% say a commercial bank is their principal financial institution. And apparently, banks are delivering what companies want most of the time.

"They're perfect," said the director of finance at a Poughkeepsie, N.Y., company about his bank. More than a third of the 413 companies surveyed could not think of a single thing that annoyed them or that they would want to change about their banks. Almost 90% of the respondents said they were as satisfied or more satisfied with their lead bank than they were two years ago.

Companies are also very loyal, the survey showed. The average length of a company's relationship with its lead bank was 16½ years. Asked what would prompt them to

David Neustadt, an American Banker reporter in New York, is the editor of this corporate survey.

change their banks, 14% said nothing. "They would have to throw us out," said the president of a $17 million company in Little Rock, Ark., that has used the same lead bank for 10 years.

The *American Banker* survey found that companies want close, long-term relationships with their banks. Almost 80% said they prefer to get financial services from a few institutions with which they have established relationships, rather than buying services separately. Quality of service and personal contact were rated as much more important than price.

Banks may be able to capitalize on those good feelings to sell other services. For example, 74% of the middle-market companies are not using any investment banking services. Commercial banks, with better ties in that market than investment banks, may be better positioned to provide such services. Indeed, the middle-market companies in the survey that are using services such as private placements and leveraged buyout advisory work are already more likely to use a commercial bank.

Though there was not strong support for giving banks the power to underwrite corporate securities, 40% of the 341 companies that had an opinion on the issue said they were willing to use banks as underwriters. At the time of the survey, banks had not been actively selling that service.

Commercial banks have a clear lead in the growing trend to securitization. While only 8% of the companies had securitized assets, another 9% said they were interested. And most of them said they would use a commercial bank to handle such a transaction.

Thirteen percent of the companies expect to develop relationships with more banks over the next two years, but the same percentage say they will cut back on the number of banking relationships.

Indications of Weakness

Although most of the replies were complimentary, there were important indications of weakness:

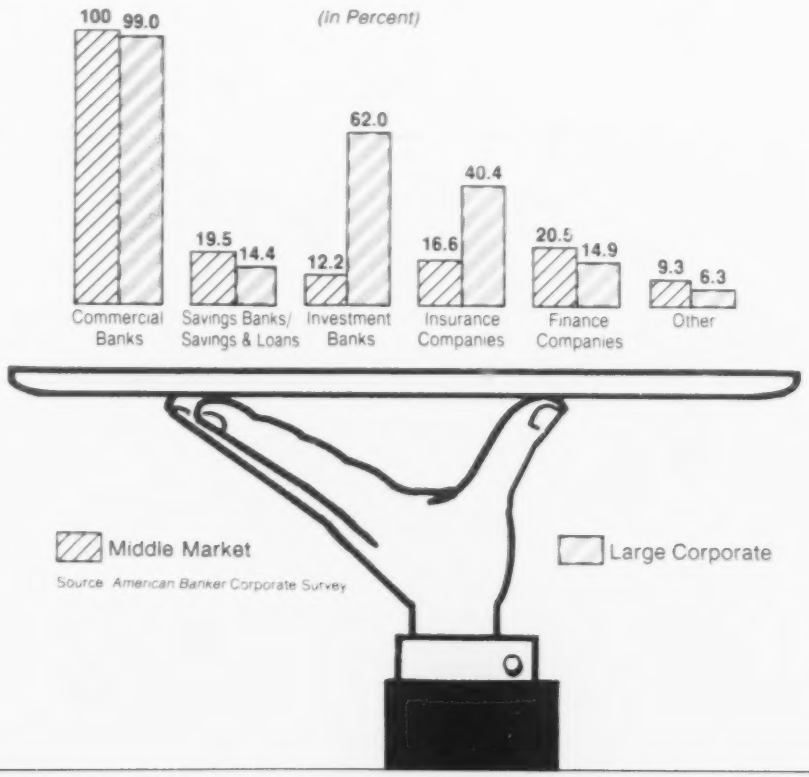
- **Confidence in the banking system.** While confidence is still strong, it is declining among almost a third of the companies surveyed. The well-publicized troubles in Texas and with Third World loans have clearly hurt how some companies view their banks.

- **Personal service and contact.** Most respondents ranked these features as very important, and some made it clear they were not getting as much as they wanted. Seventeen percent of middle-market companies said that no bank, not even their lead bank, calls on them in person at least twice a year.

- **Understanding the client's business.** A quarter of the companies said their bank does not understand their business.

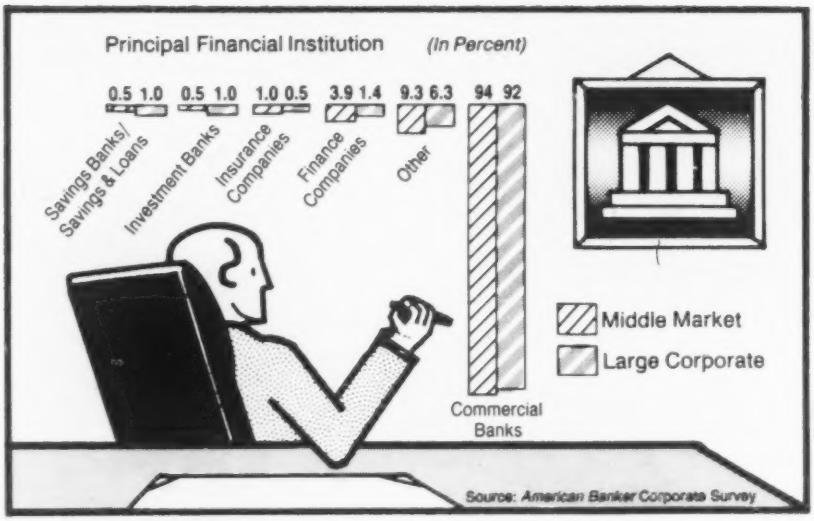
Only Commercial Banks Serve Everyone

Types of financial institutions companies use



Source: *American Banker* Corporate Survey

Corporations Prefer Commercial Banks



• **Cutbacks and restructurings.** While the wave of bank mergers has not hurt relationships and may even have strengthened some of them, cutbacks and restructurings have created problems. Too many companies say service has deteriorated after cutbacks.

• **Greater competition.** The survey confirmed the perception that competition is increasing for middle-market business. One segment of middle-market companies is getting many more calls from bankers than it was two years ago, and another group is getting many more calls from nonbank financial institutions. Indeed, almost half the middle-market companies surveyed said they are getting more calls from banks' competitors now than they were two years ago. And many are getting more calls from nonbanks than they are from banks.

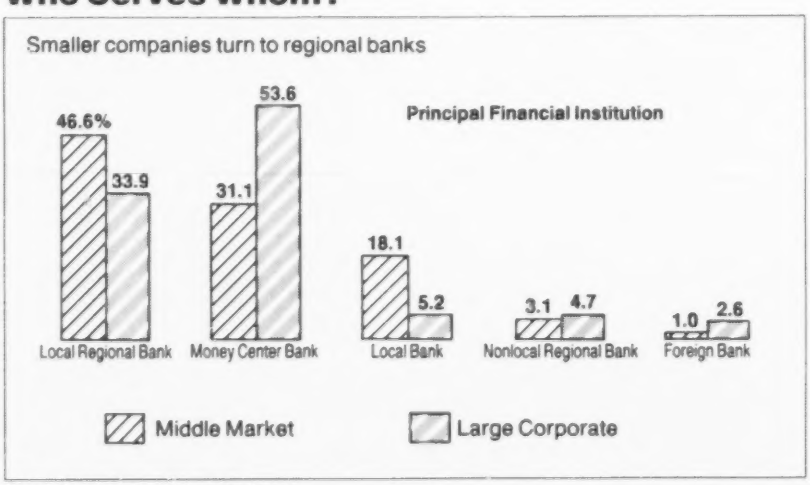
Banks Have Head Start

Deregulation may be blurring the lines between sectors of the financial services market and bringing banks increasing competition, but the *American Banker* survey found that commercial banks have a head start with most of their corporate clients.

The survey shows that corporations consider their banking relationships of utmost importance and are more than willing to meet bankers halfway. But it is also clear that corporations set high standards for their financial relationships and banks cannot take them for granted.

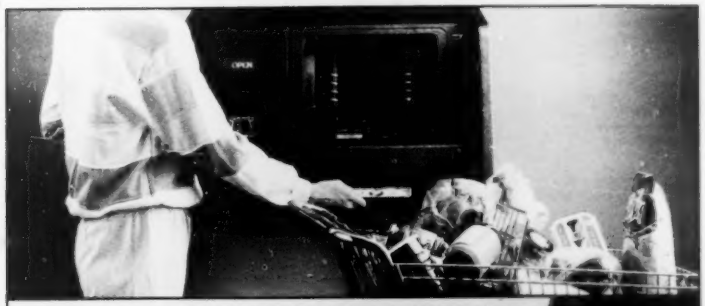
Such a sentiment can be found in the response of an executive from an Illinois company who said he is very comfortable with his current lead bank and would only switch if he became even more comfortable with another institution. □

Who Serves Whom?



Source: *American Banker* Corporate Survey

Fujitsu.



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Relationships

Four out of five companies say they would rather get their financial services from institutions with which they have established relationships rather than buying services separately ♦ Corporations seem to have little motivation to switch banks ♦ Service was important to companies regardless of size ♦ Most of the companies that said their bankers do not understand their businesses use regional institutions.

Long-Term Alliances Retain Their Appeal

Four out of five companies say they'd rather get their financial services from one source than shop around for cheaper rates.

BY JOHN P. FORDE

After 10 years in a relationship, partners might take each other a bit for granted. But having been together so long, they're often less likely to leave each other.

Banks and many of their corporate customers enjoy similar long-term relationships. More than 60% of the 413 companies polled for the *American Banker* Corporate America Survey have been doing business with their banks for at least 10 years.

The corporate clients are fairly content and set in their ways. Although a variety of services are available from different banks, companies rely on established relationships for most of their banking services, the survey shows. Many companies say they could be convinced to change their banking relationship, but few have done so recently.

Several respondents stressed the importance of their banking relationship. An executive from one Texas iron supply company said, "Hell could freeze over — nothing could make us change."

Corporations generally are monogamous. Four out of five companies in the survey say they'd rather get their financial services from one source than shop around.

"It's easier to do business that way," said an executive at a New York business services firm, "and I have to say it builds up confidence between the person banking and the bank."

One Texas manager put it succinctly: "If it works, stay with it."

Most respondents seemed unwilling to give up the comfort of an established relationship to go looking for savings on an individual product.

"The bank knows us and our needs well," said a manager at an Ohio company with annual sales of more than $1.3 billion. He added that the company's "experience shows if we shopped for cheaper prices, we might not get the whole package."

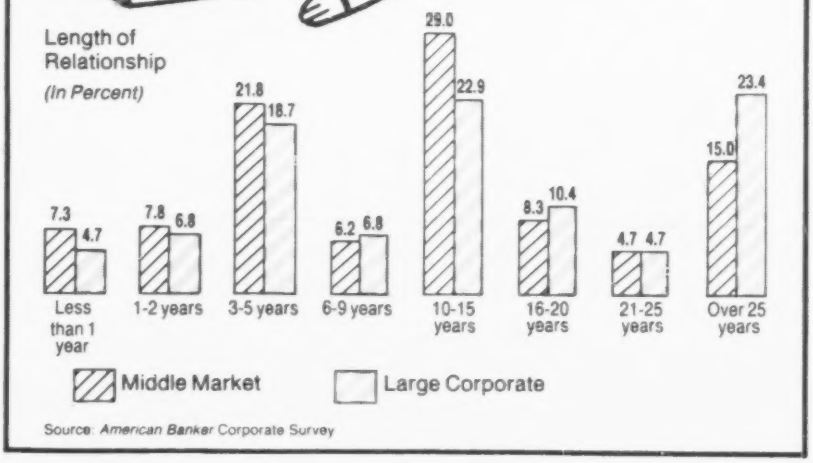
A stable relationship can be a money saver, according to a Colorado businessman, who added that "our staff isn't large enough to be out there looking" for a new bank.

Corporations believe that they get better treatment as long-term, well-known banking customers, partly because of the trust that develops between the company and its account officer.

A Texas manufacturer said, "When you work with people you know, you conduct your business better."

In some cases, the personal touch also extended into the business arena. A Mis-

Most Companies Maintain Long-Term Relationships



Source: *American Banker* Corporate Survey

John P. Forde is an American Banker *reporter in New York.*

sissippi auto dealer said he would leave his bank only if they "kicked him off" the board of directors. An executive of a Texas construction company said the business the bank throws its way is an important factor in the relationship.

Firms Don't Want to Change

Such corporate loyalty is surprising in light of the competitive changes in U.S. banking over the past decade. Deregulation has caused many banks to restructure their product lines, and interstate banking has allowed them to expand greatly in search of new business.

Long-term loyalty cannot be attributed to a lack of sophistication by smaller corporations. The survey, which polled 413 companies with annual sales ranging from $10 million to over $1 billion, found no significant difference in the length of time larger and smaller companies have used their banks.

Furthermore, corporations seem to have little motivation to switch banks. More than 80% said they were at least as satisfied with their banks now as they were two years earlier.

Among companies that have not changed banks in the past two years, 14% said they could not envision a circumstance that would prompt them to change their banks.

Only 13.3% of the surveyed companies said they had changed banks in the past two years. The number includes 15% of the middle market, companies with annual sales of $10 million to $250 million, and 11.5% of the large corporations, with sales of at least $250 million.

Among the companies that had switched, poor service ranked as one of the top reasons. A lack of responsiveness to the customer's needs and a refusal of credit were also frequently cited.

Few companies attributed a bank change to increases in service fees. Only 5.7% of the respondents that have changed banks in the past two years said they did so because fees became too high.

Fees may become more important, however, to corporate customers.

As banks have restructured in response to narrower profits in commercial lending, fee income has become a priority. Banks now charge fees for services previously offered gratis.

Expansion Might Prompt Switch

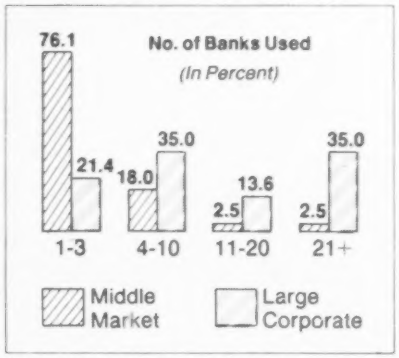
Companies that have not changed banks recently cited some reasons they might make such a change, such as switching institutions as they expand.

The manager of a business services company with $299 million in annual sales said a "lack of ability to finance at levels we require" could cause it to sever ties to its principal institution.

Of the companies that have maintained relationships, 44% said they would leave their bank if service went bad or if the bank became unresponsive to their needs. About 12% said they would switch banks if interest rates on deposits fell too low or if fees became too high.

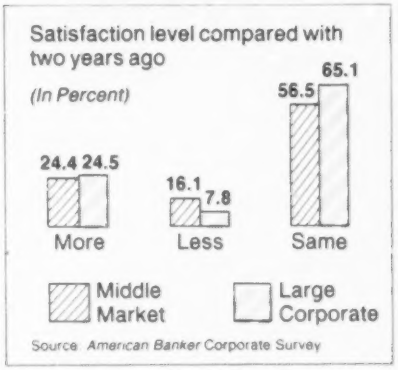
Large companies may be lured away more easily by an unusual service than smaller companies. About one in five large corporations said they might switch banks for an institution they perceived as having more innovative products, services, and ideas. This innovative thinking was a lot less important for companies with less than $250 million in annual sales, with only 6% saying such features might prove seductive.

Big Companies Use More Banks



Source: American Banker Corporate Survey

Companies Are Content With Their Banks



Source: American Banker Corporate Survey

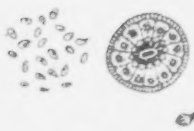
VOICE OF THE EXECUTIVE

"HELL COULD FREEZE OVER, NOTHING COULD MAKE US CHANGE [OUR BANK]."

— Controller of a $41 million industrial Texas company that has been using the same lead bank for 40 years

Our transformation into a business bank didn't happen overnight.

At Continental Bank, we recently announced our departure from the consumer banking business, and our exclusive commitment to the business banking business.



To our surprise, this announcement generated a certain amount of brouhaha in some quarters. You'd think we had decided to diversify into vinyl siding, or to become professional wrestlers.

But in truth, there's no cause for fuss. Because this change is really nothing more than the inevitable end of an evolutionary process that's been going on for quite a long time.

How long? Well, Continental traces its origins back to 1857, when a group of enterprising Chicago businessmen formed a bank to look after the interests of enterprising Chicago businesses. Of course, it wasn't long before the young bank also began accepting accounts from the public at large. But over the ensuing decades, we always maintained a clear sense of which side our bread was buttered on. Our heart, then as now, belonged to the world of commerce.

Following the depression, for instance, we made it our primary mission to help American business nurse itself back to health.

In the early 1960s, when multinational commerce was barely an incipient

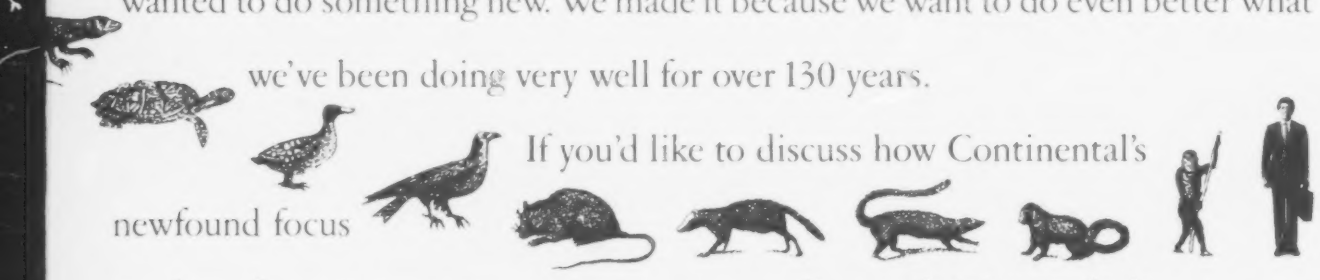
trend, we opened full-service offices in Great Britain and Japan.

And in the 1970s we developed nationally-respected capabilities in leasing, corporate finance, mergers and acquisitions, and cash management.

As you might expect, our long history of service to business has not gone unrewarded. Today Continental is counted among the premier business banks in America; and we count among our customers over one-half of the companies listed on the Fortune 500, as well as literally thousands of smaller firms nationwide. If we decided to rest on our laurels, the world would likely understand.

But while we're proud of our position, we're also less than totally satisfied with it. After all, would you settle for being near the top when you possessed the capability to be at the top? Which brings us right back to the beginning of our story: to the announcement of our transformation into a dedicated, no-holds-barred, full-blooded, undistracted, singleminded bank for business.

By now it should be clear that we didn't make this change because we wanted to do something new. We made it because we want to do even better what we've been doing very well for over 130 years.



If you'd like to discuss how Continental's newfound focus can benefit your company, we invite you to call us at (312) 828-4341.

We've evolved, yes. But considering what we evolved from, we'll have no trouble at all standing on our own two feet.

Continental Bank
A new approach to business.

A Significant Number of Firms Feel Misunderstood

A sizable minority of companies, especially in the middle market, believe their banks do not understand their business, according to the *American Banker* Corporate America Survey.

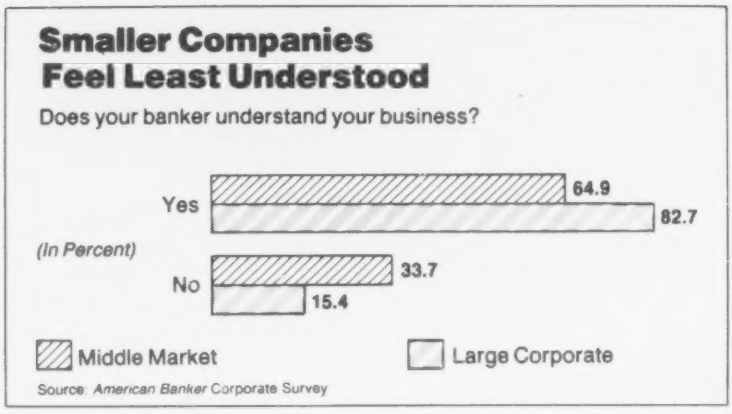
The company officials cited a combination of factors, including a lack of interest, inexperience, and even a lack of faith in smaller businesses.

The survey found a significant gap between large companies and smaller companies in how well they believe their banks know their business.

More than a third of the companies in the middle market, firms with annual sales of $10 million to $250 million, said their banks don't understand their business. By comparison, only 15% of the companies with annual sales of more than $250 million had that complaint.

Of the total sample, nearly three-quarters of the officials believe their bankers understand their business.

The vast majority of companies surveyed said that such an understanding is important to a banking relationship. When asked if bankers understand their business, only two companies responded, "Why should they?"



Dissatisfaction with Regionals

While large money center banks receive high marks from executives, some companies seem to be disillusioned with large regional banks.

Most of the companies that reported a lack of understanding use large regional institutions. Such banks have expanded to take a sizable share of the regional market, but remain based relatively close to their customers.

Several bankers, when informed of the poll's results, conceded that some firms, especially smaller companies with annual sales of less than $25 million, may have a point when they say their banks don't understand them.

This is because, the bankers said, smaller companies often are the first clients of younger, less experienced account officers who have not yet learned how to tailor specific services to their customers' needs.

The bankers, however, also said that they seek to minimize the problem by establishing specialty lending groups that focus on and serve specific industry groups. In these groups the bankers can concentrate on learning the special needs of their target industries.

Of the companies that complained their banks don't understand their business, nearly three-quarters said their banker doesn't understand what the company produces or industry conditions.

Some managers expressed frustration with bank account officers. "It's a rare individual who will take the time to understand your business," said one New York retailer.

"They lack a lot of faith in the small businessman," said a California executive.

One respondent attributed the lack of understanding to a cultural difference between banks and the companies they serve. "Banks are used to contractual agreements; we do business on a handshake," said an Illinois wholesaler with annual sales of $400 million.

Specialties May Be Incompatible

Some companies also bemoaned a difference between their business and their bank's specialty. "We are a coal company," said one executive, "and our bank mostly does farming business." Similar responses were reported by a grain broker and a petroleum company, among others.

Wholesale trade and business service companies are among the least understood businesses, according to the corporate officials, but other specialty firms also expressed concerns. "Bankers don't understand the complexities of state regulations that restrict universities," said a Virginia educator, for example.

A lack of knowledge about a client's business, say corporate executives, can waste the time of both parties. "They come and offer services we can't use," said one Connecticut manufacturer.

— J.P.F.

Service, Not Price, Is First Among Corporate Clients

The overriding determinant in a good banking relationship is the quality of service received by corporate customers — so say the customers themselves.

In a survey of financial decision makers by the *American Banker*, 29.3% said quality of service is the most important factor in a banking relationship. Ranking next in importance were three other service-related factors: timeliness (16.5%), a personal relationship (13.8%), and variety of service (9.9%).

Credit availability was the only non-service factor to receive greater than a 10% response (10.9%).

When asked to name the second most important factor in a banking relationship, respondents again named service. Quality of service received a 13.2% response, and variety of service tallied 13%.

Cost, apparently, had little to do with the perceived success of a relationship. Interest rates, service fees, and rates of return ranked at or near the bottom in importance to corporate customers.

The results seem to indicate a preference for banks that emphasize service rather than price. Said the treasurer of an Ohio-based public utility: "Experience shows that if we shopped for cheaper prices we might not get the whole package."

Another borrower, John Slater, executive vice president for Buschman Co., Cincinnati, said that price savings generally do not amount to much.

"The rates aren't that much different [from bank to bank]," he said. "A quarter-point is not that big if it means a quality relationship. It's more important for you to feel at ease, to feel comfortable."

Cost, apparently, had little to do with the perceived success of a relationship.

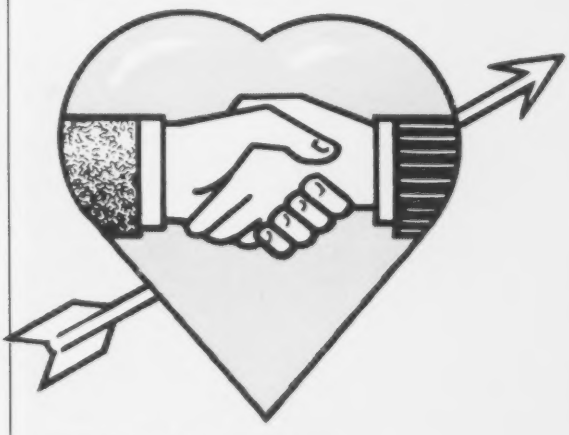
BY PHILIP T. SUDO

Bankers Say Price Is an Issue

But bankers and analysts believe that price remains a persuasive issue to borrowers.

"There's a lot of mixed signals the borrower is giving to bankers," said Christo-

Corporate Clients Say Service Is Key



What is most important in a relationship?

	Middle Market	Large Corporate
Quality of Service	27.3%	31.2%
Timeliness	15.1	17.8
Personal Relationship	14.6	13.0
Credit Availability	12.7	9.1
Service Variety	10.2	9.6
Knowledge of Company's Business	6.8	3.8
Interest Rates Charged	3.4	6.3
Location or Convenience	2.4	1.0
Rate of Return	1.5	0
Service Fees	1.0	3.4

Source: *American Banker* Corporate Survey

How to Attract a Company's Business

Banks' Method	Middle Market	Large Corporate
Personal Contact	38.5%	47.6%
Better Service or Rates	22.0	20.2
Innovative Ideas, Products, or Services	6.3	19.7
A Reputation for Reliability, Honesty	5.4	6.7
Market Presence or Aggressiveness	5.4	1.4
Knowledge of the Company's Business	4.9	5.3
Easy Credit Availability	2.9	1.0
Nothing Would Lure the Firm	7.8	4.8

Source: *American Banker* Corporate Survey

pher L. Snyder, president of Loan Pricing Corp., New York. "When times are good, they push for the lowest possible prices. But when credit gets tight, they want the bank to stand by them. They're like the atheist in a foxhole — suddenly, they find religion."

The desire for that kind of reliance and responsiveness emerged as a major theme of the study. "If we need something, they have to be right there," said one New Jersey-based manufacturer.

"I hear that all the time," said Robert D. Spencer, executive vice president in charge of middle-market lending at Philadelphia National Bank. "The tempo of business today is such that they don't want to wait. In the '50s and '60s, you said, 'Our committee meets next week and you'll hear from us a couple days after that.' Now I'm amazed at how fast things have to go; it's reached a fever pitch."

A problem can arise for bankers, said William Edison, president of Union Bank & Trust Co., Manhattan, Kan., if the borrower's definition of service is unreasonable.

"They want to pick up the phone and hear, 'Yes,' " he said. "To me, that's not good service."

Mr. Edison, who will head a commercial lending panel this fall for the Philadelphia-based trade group Robert Morris Associates, told the story of a Japanese bank that was making a $10 million loan to a company in his region.

"They sent in two loan analysts for 90 days," Mr. Edison said. "The joke in the company got to be, 'If you want to know our business, call the bank.' Now that's the definition of good service. If a company says, 'How come I don't have a free pen here?' I guess they don't want the $10 million that bad. Because great service means knowing the company's business."

However, survey respondents placed little importance on a bank knowing their business (5.3%). Many firms, Mr. Snyder said, take the attitude that a bank need only know its own business well, not that of its borrowers.

"They want a bank that's good at basic banking," Mr. Snyder said. "They want good accounting, good bookkeeping, and accurate correction of mistakes when they occur."

Beyond that, he said, "They want good communication, a justification for pricing, and — especially in the middle market — they expect the bank to stick with them through thick times and thin."

Banks Must Know Clients

In Mr. Edison's view, a bank can only provide that kind of service if it knows the company well.

"The customer is always going to think they're doing great, that everything's fine," he said. "They expect the banker to see this mystically. So when they talk about poor service, they usually mean that you're unreasonably cautious, that you couldn't respond to something they personally requested. But if you can't give them an answer, it's because you don't know them well enough."

Among the few respondents who agreed with that premise, the controller for a Chicago-based export firm said, "We deal with big banks and big dollars; we have large transactions. But we feel safe because the banks know our business."

Mr. Spencer agreed. "I always hear treasurers say, 'That bank never bothered to learn our business.' But I suspect that sometimes the story is you know their business until you turn them down. Then you don't know their business."

If bankers do not know a customer well, Mr. Snyder said, it may because they spend less time on analysis than on selling.

"The problem banks have had is that their basic business is pretty boring," he said. "So with deregulation, you've got all these corporate lenders looking to investment banking as something more exciting. Meanwhile they're losing track of the nuts and bolts while they learn these new skills."

Mr. Slater said he finds that bank service has slipped a bit. At Buschman, a heavy manufacturer, he finds "they're charging more for the service, but I don't see any improvement. If anything, they're becoming more impersonal."

But as a former banker himself, Mr. Slater said he could sympathize with the

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Philip T. Sudo is an American Banker *reporter in New York.*

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National Westminster Bank USA	First Jersey National Corporation	761,000,000
Credithrift Financial Corporation, a subsidiary of **American General Corporation**	Manufacturers Hanover Consumer Services Inc. (Manufacturers Hanover Corporation)	685,000,000
Ford Motor Company	United States Leasing International, Inc.	512,000,000
Sovran Financial Corporation	**Commerce Union Corporation**	505,000,000
Chemical New York Corporation	**Horizon Bancorp**	465,000,000*
The Royal Bank of Scotland Group plc	**Citizens Financial Group, Inc.**	440,000,000*
The Home Group, Inc.	**Carteret Bancorp Inc.**	270,000,000
Transohio Savings Bank	AmeriFirst Bank, a Federal Savings Bank	230,000,000*
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— Owner of a middle-market Long Island, N.Y., service company

lender's plight. "Their customers are a lot less loyal. You've got situations where the bank has stuck with a company through a lot of problems and then the company takes a walk. It's totally uncalled for."

The salience of service showed itself in other areas of the survey as well:

• Service was important to companies regardless of their size. Thirty-one percent of large companies cited quality of service as most important, compared with 27.3% of middle-market firms.

• An overwhelming majority of respondents said the best way for bankers to attract their business was through some form of service: Personal contact (43.1%); better service or rates (21.1%); and more innovative ideas, products, or services (13.1%).

Large companies were particularly interested in innovations, as 19.7% said it would be a good business lure, compared with only 6.3% for middle-market companies.

Few companies found easy credit to be a strong attraction. In fact, companies were more likely to say they had no interest in another bank (6.3%) than to be lured by easy credit (1.9%).

• Of the companies that changed lead banks in the last two years, most cited poor service as their rationale. Middle-market companies were particularly sensitive in this area — a third cited poor service in general as their reason for changing, and another 33% said the bank was not responsive to the company's needs. The most frequent reason cited by large companies was that credit was limited or refused (29.4%).

• When asked what would threaten an existing relationship, companies again cited poor service. Nearly 29% of those surveyed said poor service would prompt them to change lead banks, while another 15.5% said they would switch if the bank was not responsive to their needs.

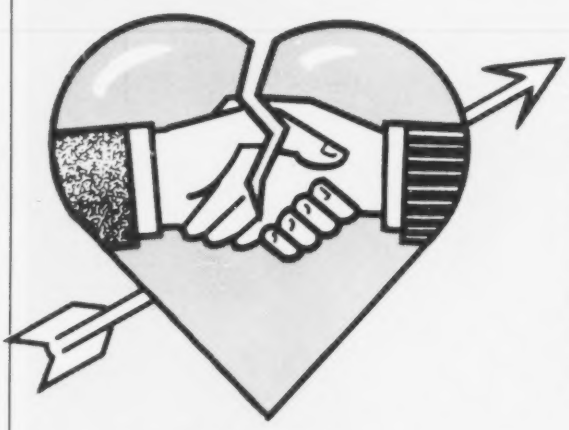
Large companies showed a greater sensitivity to fees, with 14.7% saying high fees would cause friction as opposed to 7.6% of the middle-market companies. Middle-market companies felt more strongly about low interest rates on their deposits; 17.3% said low rates would threaten their relationship, while only 7.4% of the large firms considered rates to be a factor.

To the banking industry's credit, more than 14% of the respondents said nothing would threaten their lead relationship.

One thing that could threaten a relationship, though, is a recession. Mr. Snyder predicted that an economic downturn will test a bank's commitment to its customers — particularly those for which it financed leveraged buyouts.

"Bankers have been pretty supportive of the corporate restructuring trend; it's been an important new business for them," he said. "But LBO loans have not been tested by a recession — that's when we'll find out how good those loans are, and how far the notion of 'service' extends. Are bankers going to refinance, or will they throw those LBOs into bankruptcy? The answer is going to define service in a new way." □

What Would Make a Company Switch Banks?



	Middle Market	Large Corporate
Poor Service in General	25.9%	31.6%
Nothing Would Cause a Switch	17.8	10.5
Interest Rates Too Low	17.3	7.4
Bank Unresponsive to Company's Needs	11.4	19.5
Credit Limited or Refused	10.3	7.4
Fees Too High	7.6	14.7
Bank Instability	7.0	3.7
Dissatisfied with Personnel	2.2	2.1
Better Deal Elsewhere	1.6	3.2
Company Expansion	1.1	0.5
Other Reasons	8.6	14.7

Source: *American Banker* Corporate Survey

They Want Service And They'll Pay for It

Most say the small differences in fees don't justify the time required to switch banks.

BY LISABETH WEINER

Everybody loves to save money, but the prospect of hanging on to a few dollars isn't enough for most executives to change their primary banking relationship.

Executives responsible for dealing with banks and other financial institutions say they look at the service they are getting before studying the bottom line. Even when fees are high or interest rates low, the bond between company executives and bankers appears to be thicker than dollar signs.

The *American Banker's* Corporate America Survey found that only 9.7% of the executives of large corporations and 5.9% of those from the middle market rank pricing as the most important factor in their banking relationship.

Twenty-four percent of the executives from corporations with more than $250 million in annual sales and 12.5% of those from firms with sales of $10 million to $250 million cited pricing as the second most important factor in a banking relationship.

The survey also found that a large company is slightly more inclined than a middle-market firm to change its primary financial institution because of pricing. Among those surveyed, 14.7% of the large companies and 7.6% of the middle-market firms said high fees would prompt them to look for another banker.

But only 5.6% of the smaller companies and 5.9% of the large ones have actually changed banks because of high fees.

John Guequierre is in that minority.

On March 3, 1987, Mr. Guequierre, senior vice president of administration of Schult Homes Corp., Middlebury, Ind., changed his lead bank when the company's $11 million revolving credit agreement was rebid at a lower price.

"Service and support had a role to play in this, but pricing was the key thing," he said.

Schult Homes, a home builder that had $115.5 million in sales in 1987, had significantly reduced the amount of its outstanding debt, so the pricing on its credit pact was sure to decrease.

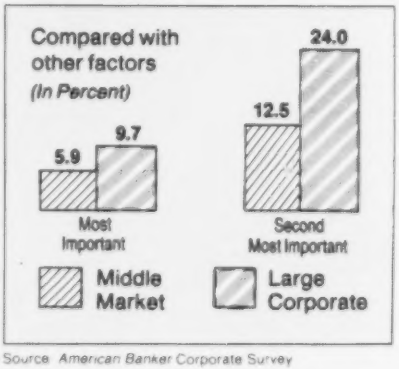
"That created the opening," he said. "There were several bidders and we switched to the one that came in the lowest." The spread on the revolver was cut from as much as 1½% over prime to ¼% over prime.

Mr. Guequierre was able to win other improvements in the loan package as well. In addition to pricing based on the prime rate and the London interbank offered rate, he now has access to a banker's certificate-of-deposit rate and has the flexibility to take portions of the revolver and put it into longer-term investments.

Mr. Guequierre acknowledges, however, that if his company had been using only noncredit services, he might have stressed quality and reliability over pricing.

Poor service was reason to change banks for Lester Bern, assistant treasurer of Material Sciences Corp., a $152 mil-

Pricing's Lack of Importance in a Banking Relationship



Source: American Banker Corporate Survey

Lisabeth Weiner is an American Banker *reporter in Chicago.*

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When Mr. Bern joined the suburban Chicago company more than three years ago, he contacted the company's local bank to introduce himself.

"Nothing happened. They didn't respond," he said of the bank, which handled payroll and other services for Material Sciences. "There was nothing warm and fuzzy about the relationship."

Mr. Bern quickly found another suburban bank, and the experience made him a true believer in the value of service.

"I am not going to change a bank relationship that works smoothly for a couple of basis points," he said.

That attitude has a cost-effective side. Bank pricing in general is tight and competitive, and the differences that do exist are usually small. An executive who decides to look around for a cheaper deal may end up "expending a lot of effort for not much change in savings," Mr. Bern said.

"Bankers realize that in an ongoing relationship, where everything works smoothly and the bank is comfortable with the company, [banking service] becomes more of an inelastic demand," he said.

In fact, the cost of ending a relationship can be considerable both in money and time.

Eugene Baker, chief financial officer for Phoenix-based Emerald Homes, said it has taken him more than a year to extricate the company from a relationship that deteriorated along with the health of the bank. New senior management was brought in, but service declined. "Upper management changed and the attitude of the bank changed," he said.

"Ending a relationship with a bank is a long, drawn-out process," he said. "Here we are a year later and it's still going on. That's one reason not to change for a few basis points."

If the pricing discrepancies were to widen, however, executives might become more sensitive to the issue.

"I would be concerned," said Dan Mullen, treasurer at Talley Industries Inc., Phoenix. "And then I would try to determine the shift in the marketplace that allows one bank to be so much lower in its pricing than another."

Sometimes, however, a higher fee buys security. Donald Gullquist, vice president of finance at Enron Corp., Houston, said he is willing to pay a little more for quick responses and dependability if the $10 billion energy company should suddenly need a large sum of money.

"I can see agreeing to a commercial-paper backup line of credit from a European or Japanese bank priced at one-sixteenth if you know you aren't going to use it," Mr. Gullquist said. "But you can't get in at one-sixteenth and raise $2 billion. A U.S. bank would charge one-eighth for a backup line. But when it comes to a transaction you'll want the U.S. bank because the Japanese can't respond fast enough."

VOICE OF THE EXECUTIVE

"I AM NOT GOING TO CHANGE A BANK RELATIONSHIP THAT WORKS SMOOTHLY FOR A COUPLE OF BASIS POINTS."

— Lester Bern, assistant treasurer of Material Sciences Corp.

Importance of Service

Pricing may be more of a factor for companies that consider excellent service part of the package — not an option — when they sign on with a bank.

"I can't remember an instance where service was really poor," said William Gardner, treasurer of Apogee Enterprises Inc., Minneapolis. "Oh, maybe there was some little thing 15 years ago. But my general perception is that there will be a high level of service and I make that clear when I evaluate a bank's proposal."

Because he considers good service to be a given in a banking relationship, price is probably the most important factor to him, he said. "On a $25 million revolving credit agreement," he said, "the difference of 30 basis points is $75,000 a year. I'd be tempted."

Some banking observers say market conditions have allowed corporate executives to put bank pricing at the bottom of their list of priorities. Christopher Snyder, president of Loan Pricing Corp., New York, said weak loan demand and low interest rates may have created a buyers' market, making pricing less of an issue in recent years.

"If a treasurer says pricing is not an issue, then he's also saying 'my bank is not very important to me,'" Mr. Snyder said.

Market conditions that allow that type of attitude could change, however. Since the start of the year, loan demand has rebounded in many parts of the country, a situation Mr. Snyder said gives banks the perfect opportunity to raise prices.

"Borrowers are busy," he said. "As one company executive told me, 'I don't make money by switching banks, I make money by selling my product.'" □

Little Things Mean a Lot When It Comes to Service

'If things are allowed to build up, you'll get that straw that breaks the camel's back.'

BY PHILIP T. SUDO

When asked to describe what bothered him about his banking relationship, a Dallas-based energy executive went directly to the issue of quality.

Specifically, air quality.

"I'd remove the smokers' ashtrays," he said of the bank's branches.

A treasurer for an Illinois manufacturer, asked the same question, complained that his bank gave him too much fine print — not in his loan agreements, but on his monthly statements. "Their ribbon printer is always bad," he said.

To bankers, these points may seem like nit-picking. And in fact, in a survey of corporate executives by the *American Banker*, respondents usually griped about details — unfriendly tellers, busy phone lines, or lack of Saturday hours.

Occasionally the survey turned up larger problems, such as the lack of personal attention or the high turnover rate among bank personnel. But for the most part, respondents were content with their current banking relationships. Many even said there was nothing about their bank they would change.

Given that endorsement, bankers might ignore these seemingly small complaints. But bank consultants advise against it, noting that differences in perception can make one person's molehill seem mountainous to another.

"Removing the ashtrays from a branch may seem trifling to you, but what if your client is allergic to smoke?" said David E. Carter, a consultant based in Ashland, Ky.

"It's the little things that tend to accumulate over time," he said. "The major problems in a relationship get solved quickly or the client is out the door. But any one annoyance is not going to force a change in the client's relationship. If things are allowed to build up, you'll get that straw that breaks the camel's back."

Not that a bank should try to fix every bug in the relationship, though. "There's bound to be minor inconveniences," said Thomas Garbett, a consultant based in Waterford, Conn. "What you want is for them to put those in perspective.

"You emphasize the important things so there's an acceptance of the whole institution as something good, and a willingness on their part to overlook the nuisances," he added. "It's when somebody doesn't know much about a company that they project an inconvenience onto the whole company."

Edward Furash, a consultant in Washington, compared banks to airlines.

"Quality of service is built up on detail," he said. "If you get on an airplane and the seats are dirty, or the toilet isn't clean, you're going to wonder if the engine's dirty, too. It's what you do day in and day out on the little things that determines your level of quality."

A complaint becomes more serious when customers feel uneasy about turnover in personnel. Then a bank must assess why it is losing people and how to smooth over disruptions in service.

"It's urgent that top management take a role in massaging the customer when there's turnover," Mr. Furash said. "Accepting turnover as a fact of life is different than accepting the consequences of turnover. You've got to do something about the consequences.

If it seems that some complaints are just too petty to deal with, bankers should remind themselves that when it comes down to dollars and cents, people count to the penny.

"The pocketbook is directly connected to the central nervous system," Mr. Garbett said. "When you're talking about money, you're talking about raw nerves. There's more pressure on banks to be correct."

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Marketing

The average middle-market company receives in-person calls from only three or four banks twice a year ♦ Nonbank institutions are making a more directed calling effort than are banks ♦ When companies were asked how a bank can win new business, 43% said personal contact ♦ A substantial number of companies see turnover of account officers as a problem.

Banks Prize But Also Neglect Middle-Market Companies

Commercial banks may very well be disregarding the very customers they most want to serve.

BY LISABETH WEINER

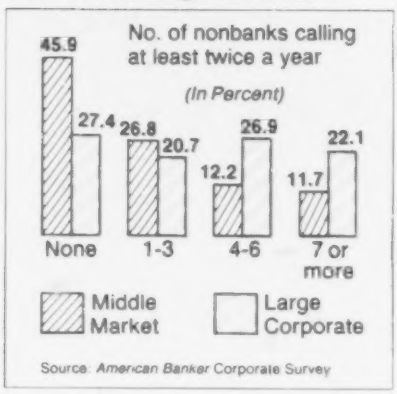
Middle-market companies are the focus of much of today's banking competition, but commercial banks may, in fact, be disregarding the very customers they most want to serve.

According to the *American Banker* Corporate America Survey, the average middle-market company — those with sales of between $10 million and $250 million — has relationships with five commercial banks, but receives in-person calls from only three or four of those banks twice a year.

And perhaps most astonishing is that 17% of these companies fail to get even two visits a year from their commercial banks.

"Twice a year, on average, is needed," says George Weinwurm, a consultant with Durkee/Sharlit Associates, Los Angeles. "Of course, it depends on the complexity and stability of the relationships. But the banker needs to be out there. When you don't have personal, eyeball-to-eyeball contact, that's how you get in trouble. And you can't tell how a company is doing just by looking at financial statements."

Nonbank Competition Is Now Focused On the Large Market



Source: *American Banker* Corporate Survey

Commercial banks with assets of $800 million and more have been chasing the middle market for nearly 10 years. Money center banks turned to midsize companies when their major customer base — large corporations — abandoned banks because they could get cheaper financing from the commercial paper market.

These midsize companies have been the regional banks' traditional bread-and-butter customers. And now other financial institutions are calling these companies more frequently.

"It's a great market," said Mark Hoppe, vice president in the metropolitan division of LaSalle National Bank, Chicago. "Lots of these companies have very large borrowing needs, they use lots of services, and the margins are better [than for large corporations]."

More Attention than Large Firms

And some survey results indicate that middle-market companies are getting more attention than larger companies. Twenty-nine percent of the large companies are hearing from more banks now than they did two years ago, while 34% of the middle-market companies say they are also hearing from additional banks.

Middle-market companies hear from 70% of their banks at least twice a year, while large corporations hear from about 43% of their banks at least twice a year. And while only 13% of the midsize companies say the number of banks that are contacting them has declined from the number two years ago, 22% of the large companies say their contacts have declined.

But it also appears there has been some consolidation among banks that have targeted the middle market. Mr. Hoppe said while four or five years ago there were 170 financial institutions in the Chicago area selling to the middle market, that number is substantially lower today.

"The remaining competitors are much stronger," he said. "All of these loan production offices from foreign banks, small regionals, Texas banks, California banks — these have been shrinking in number. Additionally, there have been acquisitions. So the numbers are smaller, but the survivors are stronger. Competition is tougher than it ever was."

Interstate acquisition activity reduced the number of banks that James Sievert, treasurer of Medalist Industries Inc., Mequon, Wis., is seeing today compared with two years ago. He now deals with six banks.

And Eugene Baker, chief financial officer of Emerald Homes, Phoenix, is also hearing from fewer banks. "I would have thought that I would have heard from more banks," he said. "The number hasn't decreased. It might have a lot to do with the local economy. There's a negativism towards real estate lending right now. Bankers want to do LBOs instead."

Other Financial Institutions

About 46% of these companies are seeing no change in the number of banks with whom they talk. But they may be receiving more calls from other types of financial institutions. On the average, middle-market companies receive visits from four or five financial institutions twice a year.

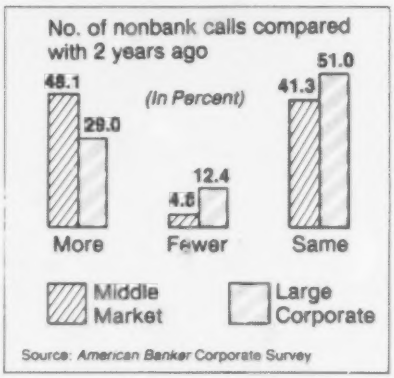
And of these companies, nearly 50% are hearing from more financial institutions today than they did two years ago. Less than 5% say they hear from fewer institutions and 41% say they hear from the same number.

These numbers show that nonbank institutions are making a more directed calling effort than are banks. But these institutions, like commercial banks, select the middle-market firms they will approach. Forty-six percent of these companies do not hear from other financial institutions.

But nonbank financial institutions are up against some formidable competition. Commercial banks have an iron grip on this market segment — 100% of those surveyed use banks, and 94% use them as their principal financial institution.

The next biggest challenge comes from finance companies, with which roughly one-fifth of the respondents say they have relationships but serve as lead institutions for only 4%. Nearly 20% of the middle-market companies deal with savings and loans, 17% have relationships with insurance companies, and 12% with investment banks.

Nonbank Competition Is Growing Fastest in The Middle Market



Source: *American Banker* Corporate Survey

Most middle-market companies — 47% — prefer their primary financial institution to be a regional bank with a local presence, while 31% use money center banks. And middle-market companies are loyal — the average length of a relationship spans 14½ years.

Seventy-four percent of the respondents are using the same number of banks now as they did two years ago, while only 18% are using more. Seventy-four percent of the respondents expect the number of those relationships to remain the same in the next two years.

So part of the middle market is getting a lot of attention from its bankers, while others are somewhat neglected.

Knowing Who to Serve

It seems that bankers know the companies they want to serve: they go after those that are on the fast track and have excellent management and clean balance sheets. And small, emerging companies are also attracting the attention of banks.

Corporate treasurers and executives from middle-market companies say the level of interest from bankers is a direct correlation to the level of profitability of their companies.

"It's a lot easier to get a banking relationship going as you get bigger," said Donald E. Steen, president of Dallas-based Medical Care International Inc. "Banks are reluctant to deal with start-up companies. Once we moved past $50 million and established a steady stream of profits, banking came easier."

As companies grow, so do their banking needs, said John Boyle, corporate executive officer for Sovran Bank, Richmond, Va.

"A large company writes more checks, does more wire transfers, borrows more money, and has more deposits," Mr. Boyle said. "There are more revenue dollars per call potential than at a smaller company.

"A company with $10 million in sales might have one plant," he said, "while one with $250 million in sales might have four plants in different locations, which suggests more business potential."

Frank Fiorenza, chief financial officer of Elco Industries Inc., Rockford, Ill., found that when his company was expanding, the banks had money to lend. "From our perspective, their appetite was aroused by virtue of our growth record," he said.

But all that growth has led to an extremely competitive environment. Mr. Hoppe of LaSalle National Bank said he believes that the traditional lender to the middle market is now being squeezed from the top and bottom.

Money center banks are squeezing on the top end and superregionals are pushing from the bottom. The superregionals are buying small regionals, giving them the power to service companies that previously were out of reach. "That's adding a different layer of competition," he said.

As a middle-market company becomes more popular with its bankers, it runs into the same problem that its counterpart at the larger corporation discovered — too many calls.

"I get about five calls a month," said William Gardner, treasurer of Apogee Enterprises Inc., Minneapolis. "I can't see that many banks. I can't see as many as I used to."

But there's a reason for all of that calling. Survey results showed that those companies that received an increased number of visits from banks most frequently increased the number of banks they used.

And treasurers and chief financial officers at middle-market companies say they feel that meeting with their bankers is crucial in order to keep in touch with new financing techniques, new products, and new ways to obtain what they want in a hurry.

"Once a week I get a call or letter or contact of some kind from a commercial bank and I talk with a number of them — some I'd like to do business with," said David T. Allen, chief financial officer and treasurer of Dynascan Corp., a Chicago-based consumer electronics company.

By keeping the lines of communications open, Mr. Allen hopes to learn about the availability of good deals and cheap money.

"Private placement of funds is much more critical for middle-market companies," he said. "Seven- to 10-year money at favorable rates — we're a candidate for that. Or I'd like to do an acquisition."

Mr. Boyle at Sovran said persistence in calling is the way to win middle-market business.

"Persistence, but with ideas," he said. "Don't waste their time. When you call you have to have something to talk about. Dropping by just because you're in the neighborhood is not acceptable anymore."

But commercial bankers should be wary of complacency — other types of financial institutions, especially investments banks are nipping at their heels.

Many treasurers and financial officers at middle-market companies said in telephone interviews that they hear from investment bankers most frequently, followed by calls from insurance companies. And when word about a possible or pending deal gets out, they are barraged by inquiries.

"When you get a 13-D filing, all types of people contact you," Mr. Sievert said. A 13-D filing is a Securities and Exchange Commission document that must be filed when an individual or corporation buys 5% of a company.

Mr. Sievert has hired investment banking firms on two occasions when Medalist was the target of potentially hostile takeover attempts. In each instance, the investment bank was able to negotiate standstill agreements with the predators. Because of that, Mr. Sievert sees investment banks in a different way from commercial banks.

"Investment bankers are a different breed," he said. "They're quicker, sharper, meaner, they know how to get the job done."

Other treasurers say they believe investment banks are more effective in assisting with acquisitions.

"Commercial banks just don't have as many contacts," said Mr. Fiorenza of Elco.

But some treasurers find it a "real chore" to have to deal with an army of bankers — be they from investment banks or commercial banks. Mr. Steen of Medical Care International, who has close ties with three commercial banks and ongoing relationships with four investments banks, would like to simplify the process.

"It would be much better if commercial banks could do everything," he said. □

VOICE OF THE EXECUTIVE

"IT'S A LOT EASIER TO GET A BANKING RELATIONSHIP GOING AS YOU GET BIGGER. BANKS ARE RELUCTANT TO DEAL WITH START-UP COMPANIES."

— Donald Steen, president of Medical Care International Inc.

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The *American Banker* hopes you find value in our first corporate survey and that the information will be useful in your work. To help us prepare future corporate surveys, would you please offer us some feedback on this one? Please return this questionnaire to William Zimmerman, Editor, *American Banker,* One State Street Plaza, New York, NY 10004. Many thanks.

1. Overall, how informative is the *1988 Corporate America Survey*?

☐ Very informative ☐ Not very informative
☐ Somewhat informative ☐ Not at all informative

2. How useful is this survey for you?

☐ Very useful ☐ Not very useful
☐ Somewhat useful ☐ Not at all useful

3. How will you use the information from this survey at work?

_____

_____

_____

4. What do you LIKE MOST about this survey?

_____

_____

_____

5. What do you LIKE LEAST about this survey?

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6. Would you like to see a separate survey of small-business companies with revenues less than $10 million?

☐ Very interested ☐ Not very interested
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What issues should such a survey explore?

_____

_____

7. To help us decide which areas to study in future surveys, please rank your interest in each of the following as follows: 3 = Extremely important, 2 = Fairly important, 1 = Not important.

___ Confidence in the banking industry
___ Investment banking
___ Loan pricing
___ Securitization
___ Attitudes toward loan officers
___ Government aid to sick banks and thrifts
___ Bankers' understanding of corporate clients' businesses
___ Reasons clients select new banks
___ Direct deposit
___ Cash management
___ Banking in the workplace
___ Attitudes about bank mergers
___ Attitudes about bank cutbacks

8. What subjects or issues that are not in the 1988 corporate survey would you like covered in a future survey? What other changes would make the survey more useful?

_____

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To help us to better understand responses, please fill in the following information:

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P.S. Thanks again very much for your help. If you would be willing to discuss your views about the survey with us, would you list your telephone number so that we might contact you?

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Personal Contact Cited As Key to New Business

Companies encourage banks to make frequent visits and to make account officers more accessible.

BY DAVID NEUSTADT

Corporate executives want to see their bankers.

"It is important that banks call personally," said Mary Rush of Tyson Foods, a Springdale, Ariz., chicken marketer. "It is good for them to come through and get to know you. That way the whole company gets the feeling that the bank is really interested."

"There could always be more personal contact," said the controller of a Wisconsin company.

The 413 companies contacted for the *American Banker* Corporate America Survey consistently emphasized their need to deal with bankers face to face. For example, when they were asked how a new bank can win a company's business, 43% said personal contact. No other response came close.

- "Come and talk to you as human beings," responded the chairman of a $63 million Wisconsin chemical company.
- "Call and introduce themselves; we never turn anyone away. We always listen to what they have to say," said the controller of a New Haven, Conn., company with $15 million in sales.
- "Frequent visits," said the treasurer of a $6 billion Georgia utility that already uses 200 banks.

Personal contact issues also came up when companies were asked what they would change at their banks. The president of a Missouri company with $10 million in sales said he would make his account officer more accessible.

"We'd have more contact with bank representatives," said the vice president of a Mississippi company with about $1 billion in sales.

No one complained about too many visits from bankers.

The basis for such complaints is clear. When asked how many banks call on them at least twice a year, almost 17% of middle-market companies, firms with annual revenues of $10 million to $250 million, said none. Only one bank called that frequently at 11% of the companies.

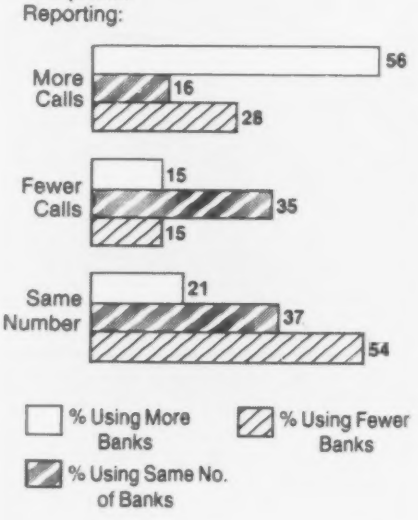
Among companies with sales over $250 million, 6% said they did not receive two visits a year from their banks; 2.4% said one bank called that often.

A Greenwich Associates study of companies with $5 million to $50 million in annual sales reached similar conclusions. Asked how many personal visits they received from their lead bank in the past year, 17% of the companies said none, 13% said one, and 16% said two.

The *American Banker* survey also found that only about a third of the 413 companies received calls twice a year from more banks than they use. Less

More Calls Mean More Banks Are Used

Change over the past 2 years



Source: American Banker Corporate Survey

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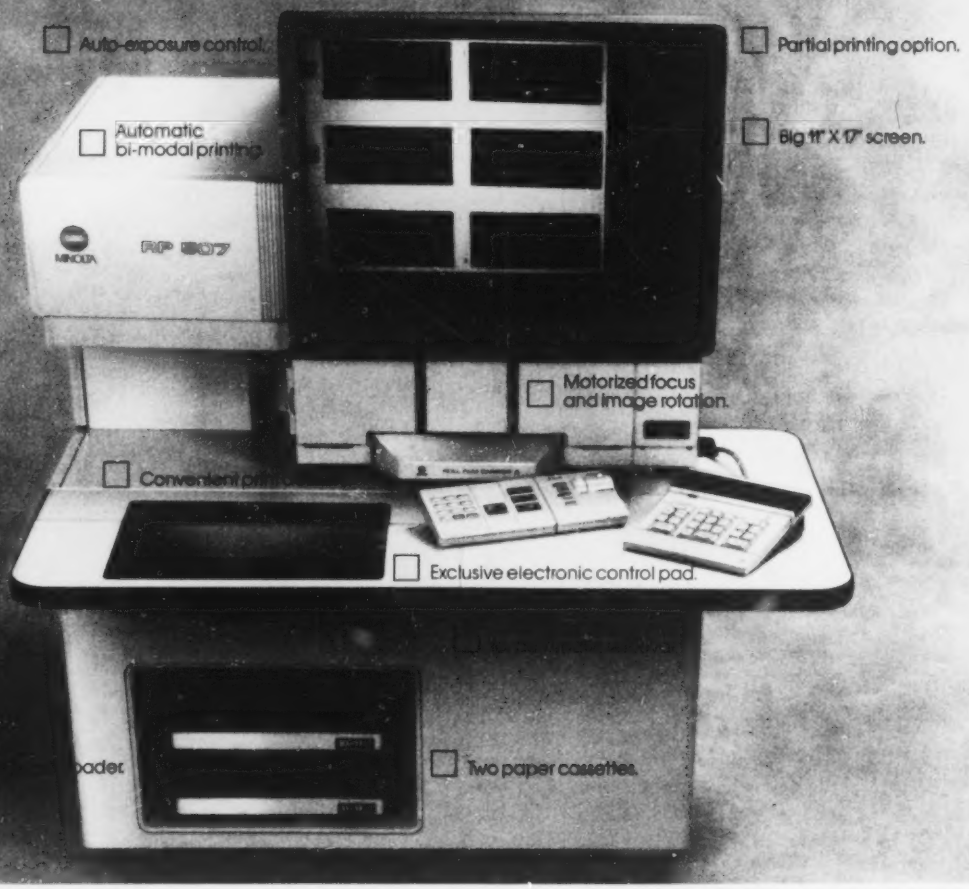

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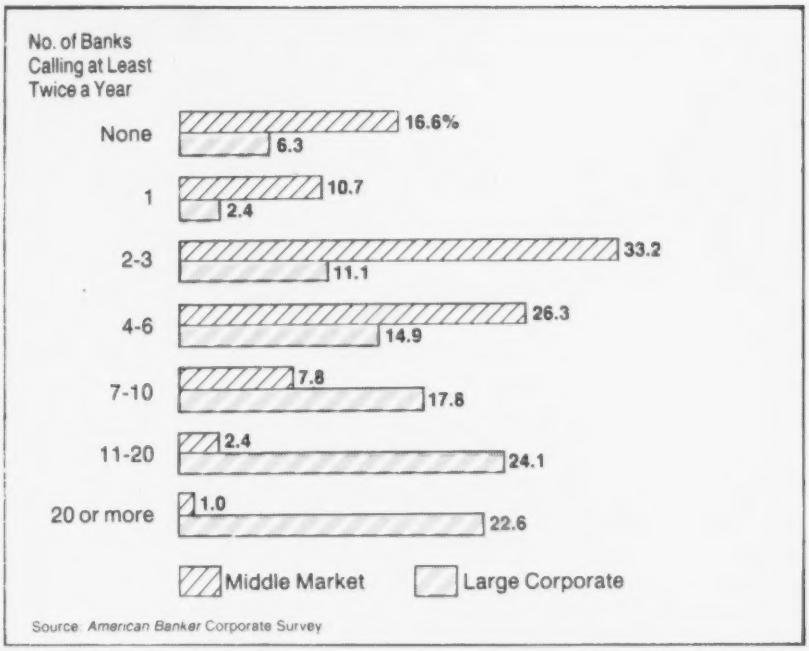
Big Companies Get More Calls



Source: *American Banker* Corporate Survey

than a third got calls from the same number of banks they use. The final third actually got calls from fewer banks than they use.

Infrequent visits clearly offer an opportunity for another bank to steal business. "If you call on the client of another bank and if you are there more than their officer is there, you have got a shot to take that business away," said Robert Grasing, a senior vice president at Robert E. Nolan Co., a consulting firm based in Simsbury, Conn.

Furthermore, the survey found that in some cases calling appears to be effective. Most of the companies polled said the same number of banks were calling as two years ago and they are using the same number of banks. But the 71 companies that got more calls from banks were much more likely to be using more banks.

As expected, large companies had more banks calling on them than did middle-market companies — an average of 17 banks for the big companies, compared with only 3.5 banks for the smaller ones.

Large companies said they were called most often by money center banks; middle-market companies, most often by regionals.

Most companies got most of their calls from the same type of bank they use as a lead bank, the study found. For example, companies using a money center bank primarily were called on by other money centers.

Exceptions to this were 59 large companies that use regionals as their lead banks. They got an equal number of calls from regional and money center banks, suggesting that money centers believe they can steal regionals' large corporate clients. □

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— Mary Rush, assistant secretary treasurer of Tyson Foods

Calling Officers Win Praise; Turnover Troubles Firms

Despite complaints, only 7% of the companies said high personnel turnover would cause them to change banks.

BY DAVID NEUSTADT

Corporate America generally gives bank calling officers good grades, but cites personnel turnover as a continuing problem.

An *American Banker* survey of 413 companies with revenues of at least $10 million found that most companies believe their account officers not only are good at their jobs, but are more competent than account officers from other financial institutions.

The account officer is often the key to a bank's relationship with its corporate clients. The service "has very much to do with the calling officer," said Mary Rush of Tyson Foods, a chicken processor based in Springdale, Ariz. "We have found that we get more service from a bank with one calling officer than with another."

The importance of the account officer was highlighted by the response to what seemed an unrelated question. Companies were asked to designate themselves as either transaction-oriented or relationship-oriented and explain why they took such an approach to the financial services market. Most of the respondents — 325 of 413 — considered themselves relationship-oriented because of their emphasis on dealing with people they know. No other factor came close.

"If you have people you know, then you don't have to constantly reacquaint yourself with them," said the president of a West Virginia company with $34 million in sales.

Some companies consider the personal relationship not only most important, but all-important. When asked what would make his company change banks, the director of finance of a $4 billion Illinois manufacturing company said, "death — if someone whom we've established a good relationship with were to die."

Account officers got the highest ratings from large companies. Eighty-two percent of the corporations with annual revenues of at least $250 million said the officer from their lead bank was good or excellent. Only 14.6% of these companies ranked their officer as average, and less than 2% rated the officer fair.

Middle-market companies, with revenues of $10 million to $250 million, were less enthusiastic, though mostly laudatory. They gave good or excellent ratings to the account officer 66.8% of the time. However, 27% of the middle-market companies gave their officers only an average grade, and 5% ranked them as fair.

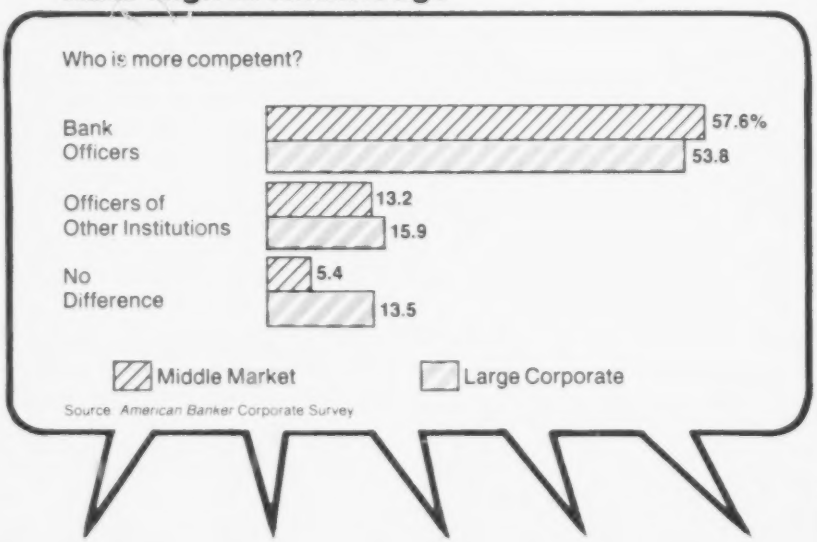
No Poor Ratings

Not a single company rated its bank account officer as poor.

The differences between large and middle-market companies may reflect the fact that account officers serving larger companies have fewer customers and, therefore, can provide better service.

For the most part, there appeared to be

Companies Say Bankers Rate High in Knowledge



How many things can a bank do and still do all of them well?

If you're a bank, your natural inclination is to try to be all things to all people.

But while that may be a laudable goal, in practice it is extremely difficult to achieve. Particularly when the people you're trying to be all things to include both businesspeople and consumers.

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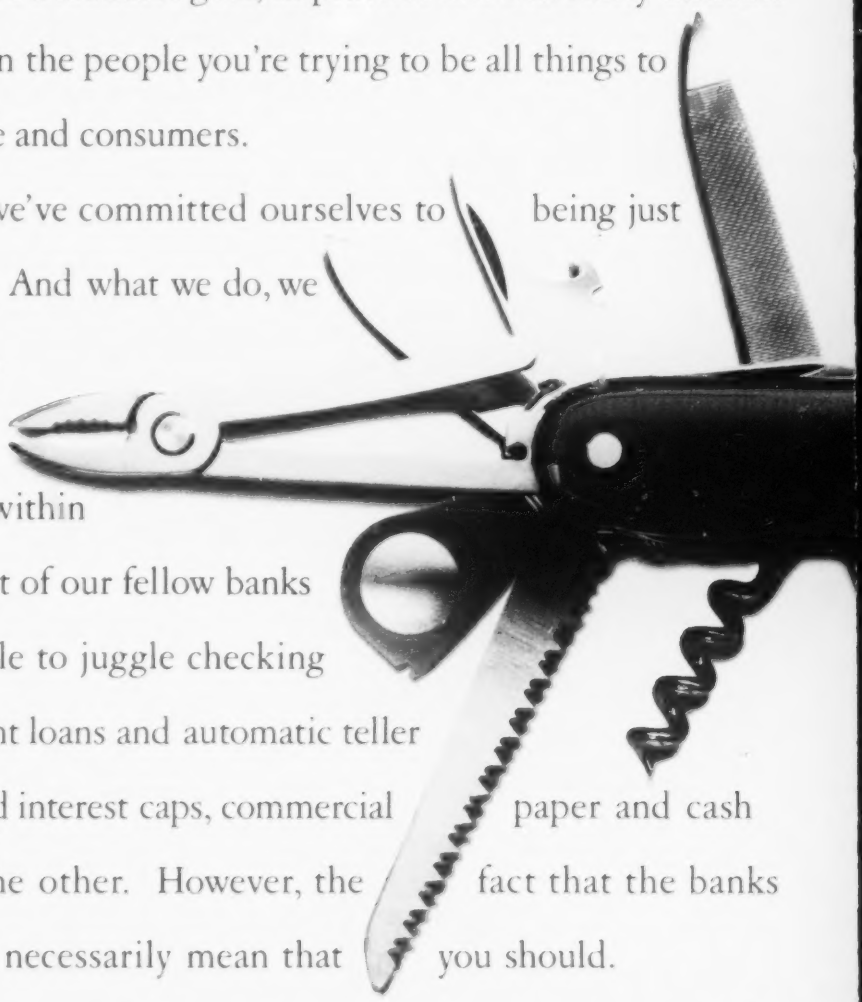

Our decision to specialize is rather unusual within our industry. Evidently most of our fellow banks find it perfectly comfortable to juggle checking accounts, home improvement loans and automatic teller machines with one hand, and interest caps, commercial paper and cash management plans with the other. However, the fact that the banks find it comfortable doesn't necessarily mean that you should.

Consider for a moment one of the more prominent emerging trends in the American business community. Historically, the most efficient companies have been the mammoth, diversified corporations.

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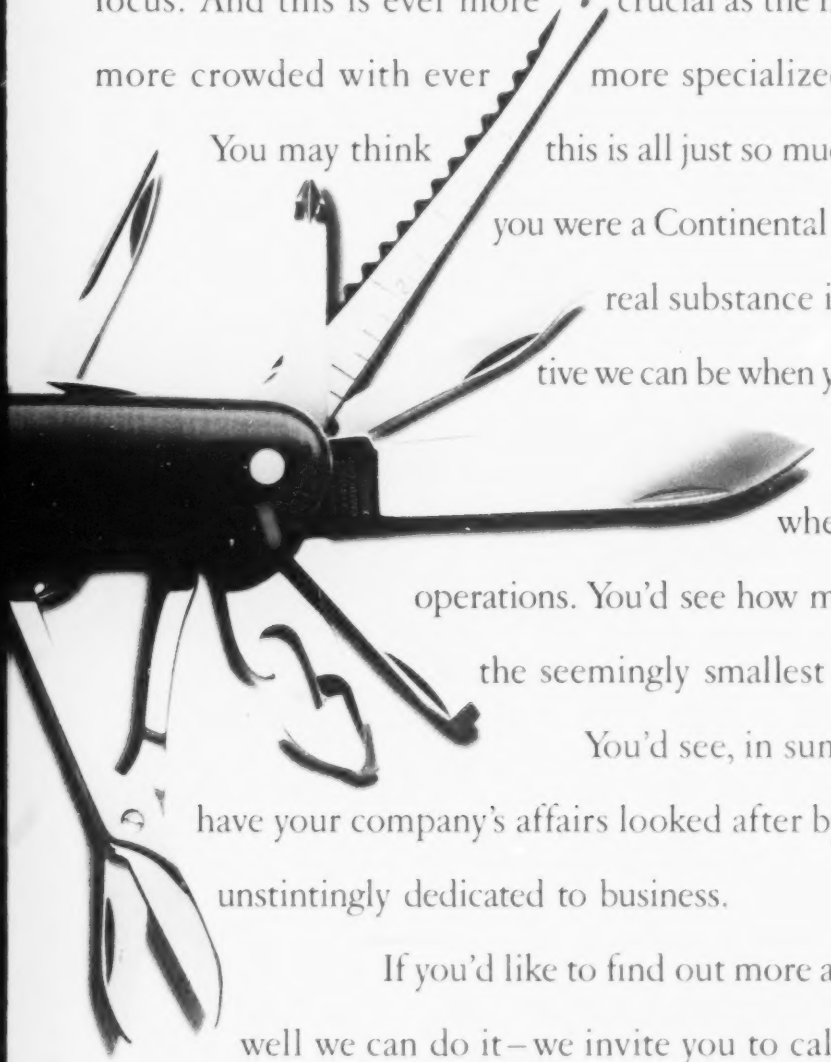
Today, though, the race is going increasingly to the swift: to the companies that know what they do best and stick to it.

Well, the same thing is happening in banking. In order for a bank to operate efficiently—in order for it to serve its clients effectively—it simply must narrow its focus. And this is ever more crucial as the financial marketplace grows ever more crowded with ever more specialized products.



You may think this is all just so much hollow philosophizing. But if you were a Continental client, you'd discover how much real substance it contains. You'd see how inventive we can be when you have a problem to solve. You'd see how well we can grease the wheels of your day-to-day financial operations. You'd see how much attention we lavish on even the seemingly smallest matters.

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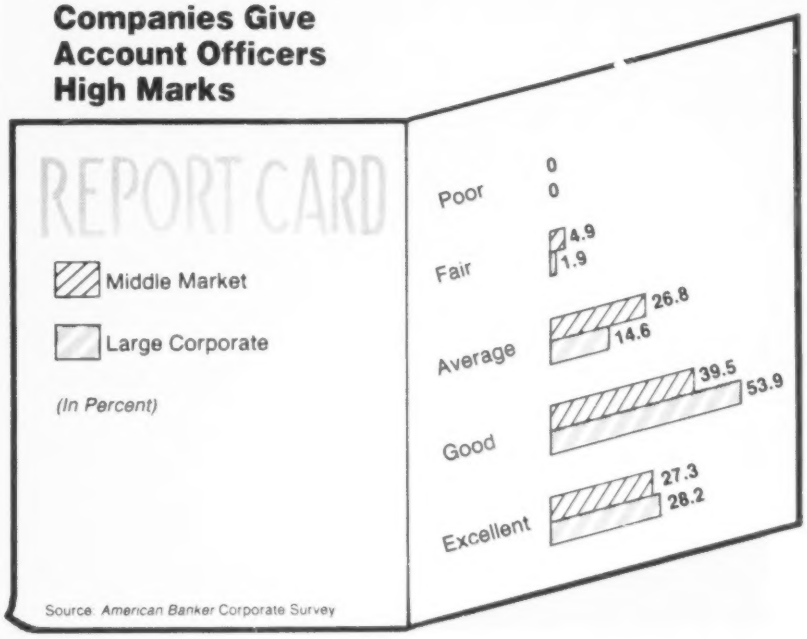
Companies Give Account Officers High Marks



no correlation between the size of a bank and how its officers were rated. But in the middle market, officers from money center banks received slightly better marks than those from regional banks.

An account officer with a poor rating may have shaky relationships with his companies, leaving the door open for another bank. With almost one-third of middle-market companies unimpressed by their officers, banks might find it wise to focus on the account-officer relationship when selecting prospective clients.

When it comes to competition from other financial institutions, it appears that banks don't have as much to worry about. Of the 329 companies that answered the question, 70% said bank officers are more competent than officers from other financial institutions, such as investment banks, finance companies, insurance companies, and thrifts. Only 18% said those competitors are more competent, and the remaining 12% cited no difference. Middle-market companies were somewhat more likely to rate bankers higher.

The bad news for banks is that a substantial number of companies see turnover of account officers as a problem. More than a third of middle-market companies and almost half of the large companies complained that they had some or a great deal of problems with such turnover. And companies in the western part of the country considered turnover among calling officers a greater problem than did companies in other regions.

"I'd slow down the constant change of account officers," said the treasurer of a Houston company with $260 million in sales.

"Turnover is a problem because something is lost until the new calling officer really gets the hang of everything that is going on," said Ms. Rush of Tyson Foods.

For some companies, turnover was enough of a problem to cause them to change their banks. "My previous bank changed officers too often," complained the president of one $13 million Minnesota company that switched.

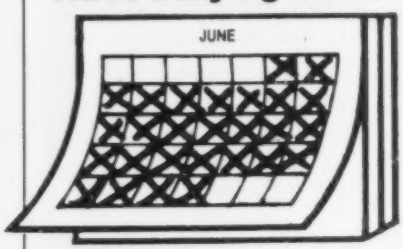
Despite some complaints, corpora-

VOICE OF THE EXECUTIVE

"IF YOU HAVE PEOPLE YOU KNOW, THEN YOU DON'T HAVE TO CONSTANTLY REACQUAINT YOURSELF WITH THEM."

— President of a West Virginia company with $34 million in sales

Account Officers Have Staying Power



Source: *American Banker* Corporate Survey

tions seem willing to put up with high turnover among bank calling officers. When asked what they would change at their bank, only 7% cited high personnel turnover.

The study found that companies tend to have relatively long relationships with their account officers. Among the middle-market companies, 35.6% have had the same officer for five years or more. An additional 19% have had the same officer for three to five years. Less than 13% have had a relationship for less than a year.

More Change for Big Firms

Relationships with account officers tend to be shorter at large companies. Only 18.4% of the companies with more than $250 million in annual sales have had the same officer for more than five years, while 38% have had the same officer for less than two years.

The market served is more indicative of the length of relationship than the type of bank. When serving the middle market, officers from money center banks stay with their accounts for about the same amount of time as officers from regionals.

Officers from both regionals and money centers have shorter-term relationships when they serve the large corporate market. However, relationships with money center officers tend to be shorter than those of officers from the regionals.

A Greenwich Associates study of companies with revenues of $5 million to $50 million focused on what characteristics companies consider most important for account officers.

Following up promptly and effectively on requests topped the list among those relatively small companies. Convincing the bank to meet the company's credit needs came in second. The small companies were less interested in calling officers providing advice on complex financing problems or coming up with service ideas for the company. □

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"MY PREVIOUS BANK CHANGED [ACCOUNT] OFFICERS TOO OFTEN."

— President of a $13 million Minnesota company

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How the Banks Are Doing

One-third of company officials say they have less confidence in the banking system than they had two years ago ♦ Problems related to bank mergers include personnel changes and excessive paperwork ♦ More than half of the large companies surveyed have noticed cutbacks at their banks ♦ A number of banks have put corporate relationships in jeopardy by not coordinating cutbacks properly.

Faith in Banks Is Strong, But Showing Signs of Erosion

The slip in confidence has led many respondents to change the way they conduct their banking business.

BY PHILIP T. SUDO

Corporate executives say they are confident in the nation's banking system — but less so than in recent years, according to a survey of financial decision makers by the *American Banker*.

Nearly 46% of those surveyed expressed a great deal of confidence in the nation's banking and financial system. Another 46% said they feel some confidence. Only 7% said they had very little or no confidence in the system.

But when asked how their level of confidence had changed over the past two years, 33% of the respondents said they felt less confident in the system.

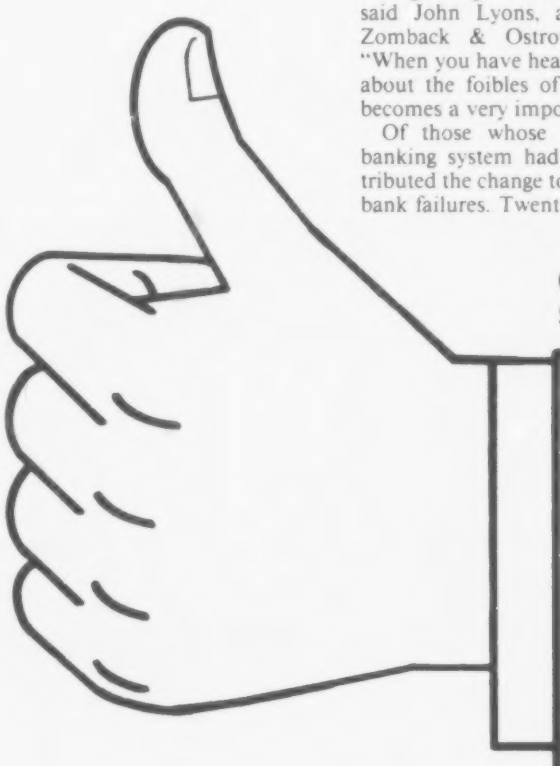
"Anyone who can hear thunder and see lightning has to be a little shaken," said John Lyons, analyst for Lyons, Zomback & Ostrowski, New York. "When you have headline after headline about the foibles of banks, confidence becomes a very important issue."

Of those whose confidence in the banking system had eroded, 68.1% attributed the change to the recent wave of bank failures. Twenty-two percent cited current economic conditions, 16% pointed to the Third World loan problem, and 5% mentioned the poor quality of bank management.

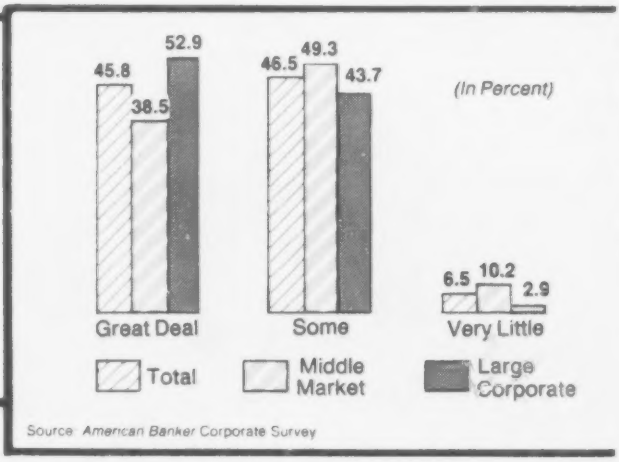
"It's not surprising in light of the events that have marked the decade," said James McDermott, analyst for Keefe, Bruyette & Woods Inc., New York. He noted that Keefe's index of money center and regional bank stocks — a measure of investor expectations — declined 20% from March 1986 to March 1988. Similarly, the *American Banker* index of money center stocks declined 36% during the period. In contrast, the Standard & Poor's 500 Composite index rose 8.6% in the period.

Only the NASDAQ index of small bank stocks improved over the two years, by 11%.

Beyond its effect on stock prices, confidence is important because it measures the corporate world's faith in banking relationships, Mr. Lyons said. Borrowers, for example, invest as much time as lenders do in trying to build a solid, en-



Confidence Remains in the Banking System...



Source: *American Banker* Corporate Survey

VOICE OF THE EXECUTIVE

"BECAUSE OF THE HIGH FAILURE RATE IN THE BANKING SYSTEM, WE'VE PUT LESS AND LESS RELIANCE ON BANKS AND MORE ON OTHER FINANCIAL INSTITUTIONS."

— California company president who felt less confident in the industry

during relationship, and they do not like to see that effort undermined by problems in the system.

Company Deposits Are Uninsured

And from a depositor's standpoint, "confidence is everything, because corporate deposits are the uninsured deposits," Mr. Lyons said. Most large and middle-market companies have balances that exceed $100,000, which puts them outside the Federal Deposit Insurance Corp.'s protection. "In that sense, the corporate depositor becomes like an investor in the bank."

Fifty-four percent of the respondents said they were as confident in the banking system as two years ago. An additional 12% were more confident in system.

Significantly, though, the level of confidence varied by the size of the company. Large corporations expressed more confidence in the banking system than did middle-market companies.

Nearly 53% of the large firms said they had a great deal of confidence in the banking system, with only 2.9% indicating very little confidence. Among middle-market respondents, 38.5% reported a great deal of confidence and 10.2% said they felt very little confidence.

"The middle market is of greater concern to me than the large corporation," Mr. Lyons said. "The large corporations don't borrow from banks anymore, so they don't care as much. But the middle-market borrower has a life and death relationship with banks — they're hand in glove with the bank, and they're saying, 'I'm scared.' "

As one Atlanta-based executive put it, "I still have confidence in the system — but not as much confidence in the banks."

The slip in confidence has led many respondents to change the way they conduct their banking business.

'One Key Bank'

"We've consolidated our banking with one key bank," said the chief financial officer for a Michigan-based health service who expressed only some confidence in the system. Conversely, the controller of a Texas-based chemical company who felt very little confidence in the industry said, "We're separating our accounts and putting them in different banks to handle."

Another executive in Texas, whose banks have suffered through a spate of bad energy loans, said, "We don't keep accounts in excess of $100,000 because [the banks] are going down right and left. They're not doing their homework, and it's going to hurt our business."

Some indicated they are willing to look for financial services at institutions outside of banking.

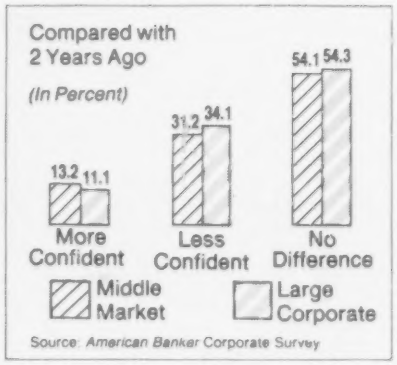
"Because of the high failure rate in the banking system, we've put less and less reliance on banks and more on other financial institutions," said a California firm president who felt less confident in the industry.

Despite these problems, the banking system is still better equipped to handle problems today than it was 15 years ago, Mr. McDermott said.

"I remember when Herstatt created a crisis of confidence," he said, referring to the German firm Bankhaus I.D. Herstatt KGaA, whose failure in 1974 sent shock waves through the world financial system. "It used to be that a single event like that would set off all kinds of alarms.

"Here in the last year, we've gone through the stock market crash and a whole series of crises, and they've been managed through," he said. "So if you look at it, it suggests a fungibility of the banking system. For the industry to have gone through as many crises as it has and still be in good shape is a sign of inherent strength." □

...But Confidence Is Falling



Source: *American Banker* Corporate Survey

"I still have confidence in the system — but not as much confidence in the banks."

Both Benefits and Woes Attributed to Bank Mergers

The banking industry's consolidation does not automatically mean better banking for corporate clients.

BY GORDON MATTHEWS

Mergers and acquisitions generally have not hurt the relationship between banks and business, but the banking industry's consolidation does not automatically mean better banking for corporate clients.

Companies responding to the *American Banker's* Corporate America Survey cited both benefits and problems associated with bank mergers. Respondents said the biggest pluses were improved and flexible services and the availability of additional capital. Significant problems ranged from personnel changes to excessive paperwork in dealing with the newly merged bank.

More than 70% of the 413 firms surveyed said they had dealt with a merged bank. And an impressive three-fifths of the respondents — 61% — said their relationship with the merged banks remained the same as before consolidation.

On the other hand, a sizeable minority, 37% of responding companies, said their bank relationship had changed. And, more important, the firms in this group were almost equally divided on the effects of the mergers. Of the total sample, 18.8% said their banking relationship was stronger, while 18.2% sensed a weaker bond.

There was a striking disparity between smaller and larger firms on this key issue.

Among middle-market companies, with annual sales of $10 million to $250 million, 40% said they believed their banking connection was different, and well over half of the smaller companies termed it weaker.

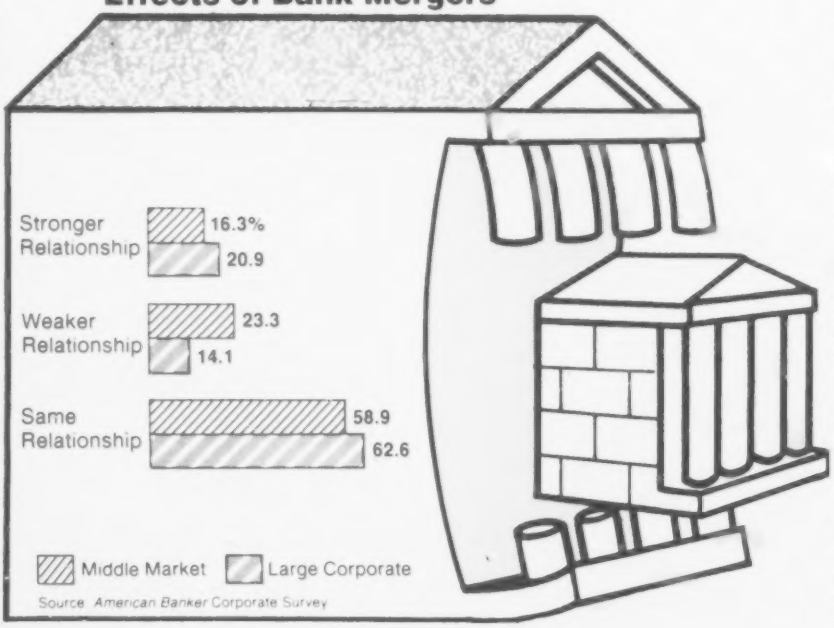
Among large corporate customers, with annual sales over $250 million, a slightly smaller 35% said their basic banking tie was now different. Three-fifths of these firms, or 20.9% of the total, said it was stronger than before the merger.

The data suggest that after a merger, banks focus on large customers they presumably deem more important to retain. And the data indicates that many smaller firms, sensing change at their traditional bank, need reassurance or they might be inclined to change banks.

"Everybody has a routine, and business borrowers are very sensitive to the routine of borrowing money. With some, it's their lifeblood, and any possible complication in their relationship with their lender is very uncomfortable," noted John J. Lyons, a New York consultant who advises financial institutions on mergers.

"Mergers represent change, which is unsettling," said Virginia A. Adair, vice president of Merrill Lynch Capital Mar-

Corporations Assess the Effects of Bank Mergers



Gordon Matthews is an American Banker *reporter in New York.*

kets and a banking industry analyst. "Important efforts have to be made to avoid disruption and minimize the loss of corporate clients that are always possible in such a situation."

New or Better Services

The most frequently cited reason for an improved relationship with banks was new or better financial services — reported by nearly 40% of those companies reporting a change after a merger. "Our bank was able to add additional services with the merged institution," said an executive of a manufacturing firm in Washington State with nearly $500 million in sales yearly.

"Our bank merged with a large money center bank, so now we have a wide range of services available to us," a New York firm said. "It [a merger] gave us a much wider variety of services," echoed an Illinois firm with $1.3 billion in sales.

The next most frequently mentioned reason for a stronger relationship in this situation, cited by about a third of the companies, was the broadened financial base of the bank that creates opportunities for obtaining more credit. "They used to have a lending cap; now they can lend us what we need," said a Virginia company with yearly sales of $34 million.

"The merger provided them with more money," said an official of a smaller Pennsylvania firm. "Now they're highly capitalized and able to lend more money."

An official from a Kansas firm with $2.9 billion in annual sales said, "The merged institution has more credit business with this company."

The increased size of a merged bank and the perception of greater stability were also noted, particularly by two Texas companies. "The bank is more solidly established now," said a company with $12 million in sales.

"It increased the ratings of the bank; it was a positive merger," said a larger firm, with sales of $273 million.

But corporate customers also noted some problems stemming from banking combinations — particularly personnel-related quality concerns — that bank managers may want to examine.

Turnover among account officers, especially, and other bank personnel was the biggest headache that firms said they encountered after their banks underwent a merger. Personnel problems were cited by 20% of the firms surveyed, and nearly as many companies complained about lack of personalized attention by banks.

These feelings parallel answers to other survey questions and emphasize the importance that corporate customers attach to their links with their banks.

"[The merger] made the smaller bank operate under the bigger bank's guidelines. We became a number instead of a client," said a Mississippi firm with $18 million in sales.

Personal Attention Is Key

Personal attention is a key concern. "It seems that they don't pay as much attention to the wants and needs of the customer" after a merger, said one Texas business services company with sales of $263 million.

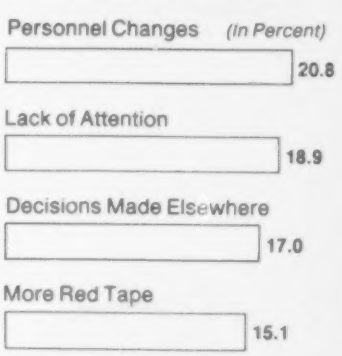
The lack of local decision-making was another problem arising from bank mergers that respondents mentioned. "They have no interest in a small community," was the plaintive remark of a Washington State firm posting sales of $17 million.

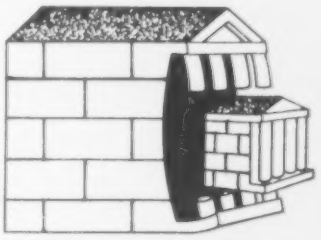
Red tape and confusion were other merger-related maladies. "We're getting statements from both banks. Delay in getting accessible money went from four days to ten," said a Colorado firm.

"Our accounts shuffled, and the result was a great deal of confusion with bank personnel," said a California company.

Problems Caused By Bank Mergers

As cited by corporations





Source: *American Banker* Corporate Survey

"There's a lot more red tape. Its hard to get a question answered," lamented a North Carolina firm.

And an Oregon firm, which lists sales of $500 million, hit on a problem that frequently surfaces in the wake of mergers: "The calling officers are too preoccupied with internal developments."

Problems of the Little Guys

Part of the reason for greater concern among smaller companies is that "their relationship with banks is much stronger to begin with," said Mr. Lyons, a manag-

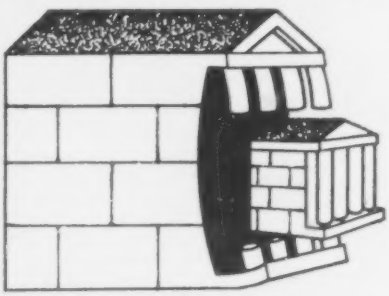
VOICE OF THE EXECUTIVE

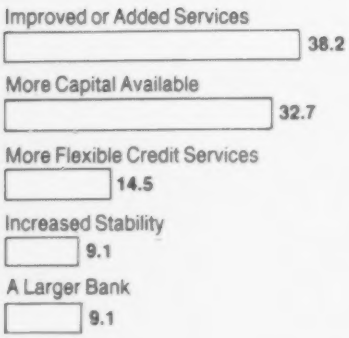
"OUR BANK MERGED WITH A LARGE MONEY CENTER BANK, SO NOW WE HAVE A WIDE RANGE OF SERVICES AVAILABLE TO US."

— Executive of a New York firm

Benefits of Bank Mergers

As cited by corporations *(In Percent)*





Source: *American Banker* Corporate Survey

ing principal in the firm of Lyons, Zomback & Ostrowski. "They need the banks more. The larger companies have financial options that smaller companies don't have — the capacity for shutting off valves and opening up others when they need, so to speak."

The middle-market customers' concerns about mergers deserve attention from banks, "because it's a situation where the guys most upset are basically the guys who are paying the freight," Mr. Lyons said. "Rather than the big companies, it's the smaller firms that are paying the prime, and prime plus credits."

The experience of most companies with bank mergers, as identified in the survey, coincides with the spread of interstate banking since mid-1985. At that time, the U.S. Supreme Court upheld the establishment of regional banking zones.

Since then, southeastern states and the northeastern region — in particular the New England states — have experienced the largest number of interstate mergers. The West and Southwest have experienced relatively fewer consolidations. The Midwest has lagged behind, although it is now beginning to catch up.

Following that pattern exactly, the study found that businesses in the South had encountered the most mergers, and firms in the Midwest had the least exposure to banking combinations.

Of the southern companies surveyed, 75.7% said they had encountered mergers, followed by 73.5% of northeastern companies and 71.4% of companies in the West. By comparison, only slightly under two-thirds of midwestern companies had dealt with merged banks.

There was also a variation in the types of companies that have been and are clients of merged banks. Nearly three-quarters of firms in the manufacturing sector had dealt with merged banks, while just under two-thirds of companies in the business services category had done so.

The manufacturers' businesses included food, textiles, furniture and fixtures, fabricated metal products, transportation equipment, printing and publishing, and similar industries. The business services category includes hotels, amusement and recreation services, auto repair, heath care, and legal and social services companies.

It was business service companies that most often felt a merger had strengthened their banking relationship. Twenty percent of business services companies offered this assessment.

On the other hand, firms specializing in wholesale trade offered the most pessimistic view, with 27.1% citing weakened ties with their banks.

For banks involved in or considering mergers, the message seems to be that the vital relationships between banks and their corporate customers must be preserved and protected and special reassurance provided for smaller firms.

According to Mr. Lyons, the best model for accomplishing this may be First Chicago Corp.'s 1984 acquisition of American National Corp., Chicago, and its subsidiary, American National Bank & Trust Company of Chicago. American National is considered the premier middle-market lending bank in the Chicago area.

First Chicago "has allowed American National to keep doing what it does best," he said. "They haven't moved in at all, although the banks are literally right down the street from each other, and the commercial client relationships at American National haven't been disturbed.

"First Chicago basically decided they were buying the corporate client relationships of American National, and they let them do their own lending," Mr. Lyons said. "Commercial relationships are the big element you're buying when you acquire a commercial bank. That's what you pay the premium for.

"For an acquiring bank to pay a premium for another bank and then proceed to foul up the commercial relationships it bought really adds up to shooting yourself in the foot." □

Bank Cutbacks Are Noticed Most Often by Big Businesses

It's become a common story. The first warnings to customers are newspaper reports that the neighborhood bank has gotten into trouble because of a problem loan or some other financial misfortune.

Familiar faces disappear from behind the tellers' windows. The positions are left vacant, or they are filled with lower-level, and presumably lower-paid, employees who are less competent. Teller lines get longer; service suffers.

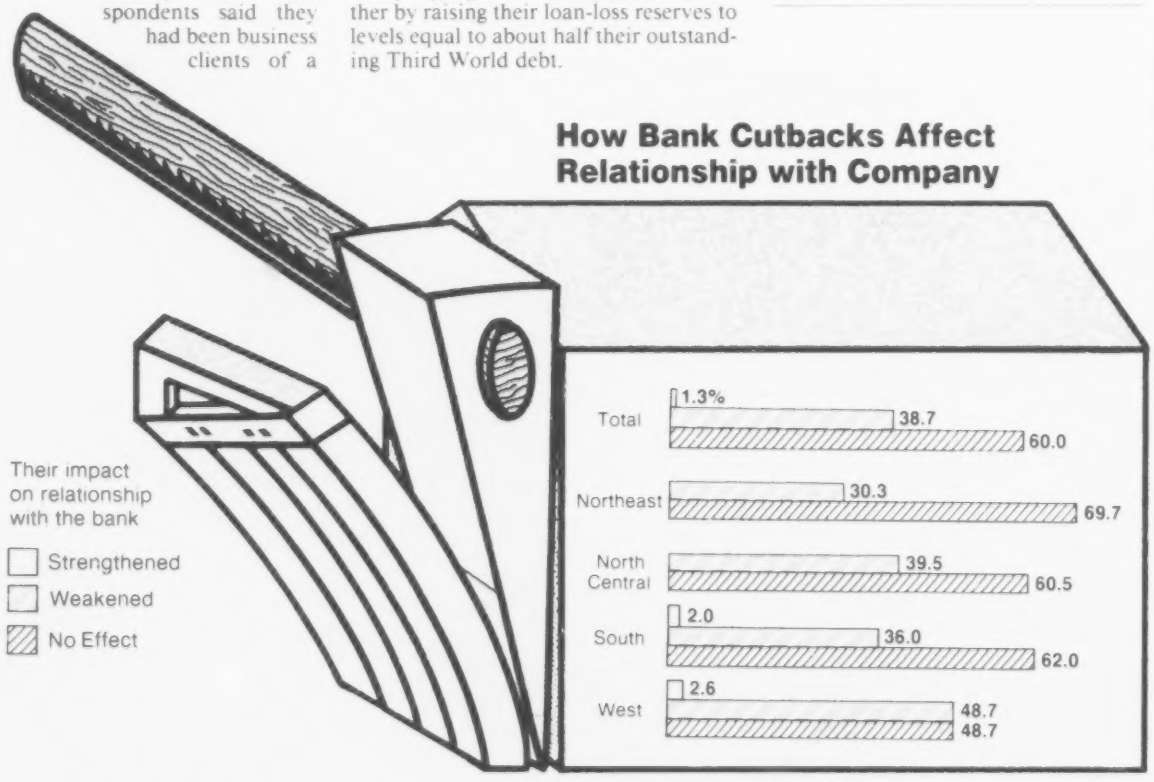
Large corporate customers often encounter similar scenarios, according to the *American Banker* Corporate America Survey.

Nearly 40% of the respondents said they had been business clients of a bank that cut back services, reduced staff, or curtailed certain operations. The companies that reported bank cutbacks were not evenly distributed throughout the sample. More than half of the larger companies — those with at least $250 million in annual sales — had noticed reductions at their commercial banks. Only 24.9% of the responding companies with less than $250 million in annual sales noticed such cutbacks.

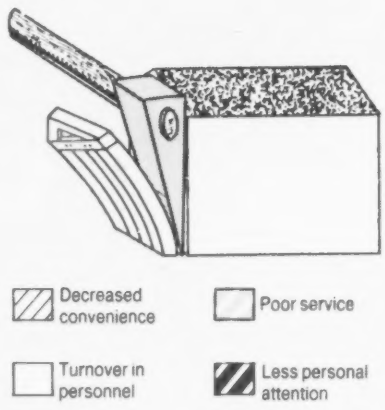
Clearly, the larger banks in the nation have borne the bulk of the industry's problems. Money centers and major regional banks set aside massive additions to their loan-loss reserves last year. Many top regional banks went a step further by raising their loan-loss reserves to levels equal to about half their outstanding Third World debt.

Although banks may claim that service will improve with restructuring, this clearly has not been the experience of many companies.

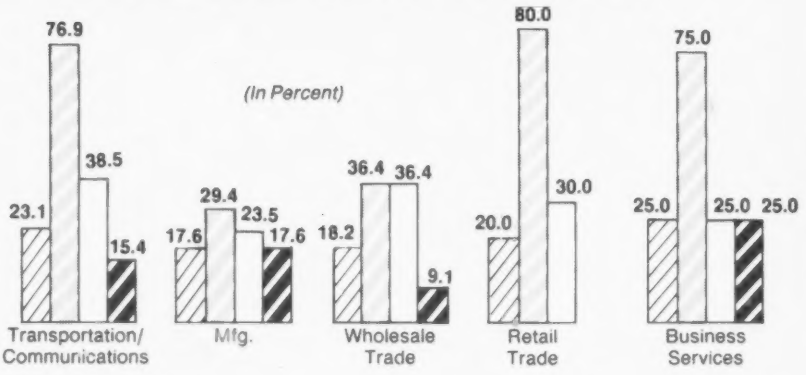
BY JOHN P. FORDE



Source: *American Banker* Corporate Survey



How Bank Cutbacks Hurt Companies



Source: *American Banker* Corporate Survey

As a result, many banks have sought to rebuild capital by trimming expenses and focusing on more clearly defined service lines.

Most of the time, corporate consumers have not been affected by these cutbacks, according to the survey. Nearly 60% of the companies say staff cutbacks and reductions in operations have had no effect on their relationships.

But cost-cutting and restructuring drives clearly have left a sizable minority, or about 40%, of corporate consumers unimpressed.

When banks restructure, they often say the change will at worst be transparent to the customer. Many claim service will improve because layers of ineffective management will be removed.

This clearly has not been the experience of the companies that responded to the survey. Only three companies said banks that had announced cutbacks or restructurings provided better service afterward.

One Alabama wholesaler said cutbacks helped his bank improve its operational procedures. A Washington retail company said cutbacks helped rid his bank of "the least knowledgeable" employees.

The primary complaint of respondents was that a bank's level of expertise and service was not maintained after a restructuring. Corporations couldn't solve the problem by replacing their contact person, they said, because the entire bank seemed to be faltering.

This opinion points to a problem in the way banks manage their restructuring. The survey shows that a large group of commercial banks have put corporate relationships at risk through poor implementation and coordination of change.

Several respondents said their banks are "less capable than before" restructuring. Another company said "things aren't getting as done as quickly or as efficiently."

Twenty-nine percent of the firms that reported weaker bank relationships because of cutbacks said personnel turnover was an important factor in the change, and 11% said they received less personal attention.

Several respondents believed the additional duties passed on to remaining employees can be too much for them to handle. "Some of the people are stretched too thin now," said a treasurer at a Kansas company.

Corporate treasurers seemed most upset that their banks had lost their vitality. "When I asked a question and needed one answered," said the treasurer of a California company, "it seemed as though it took forever."

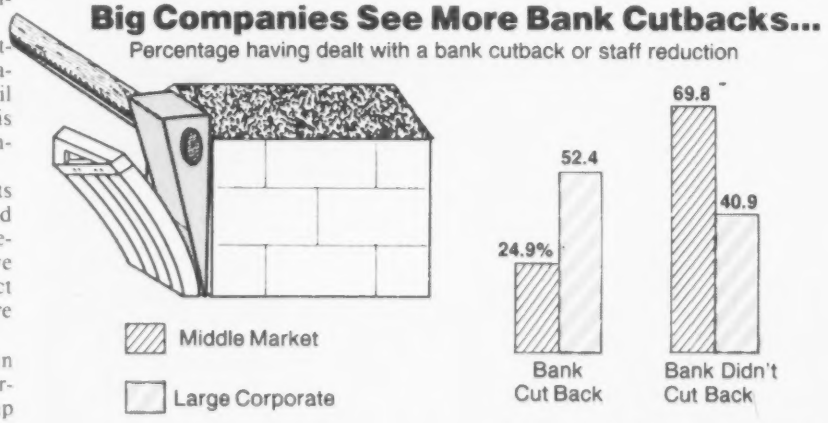
One Colorado manufacturer noted a "noticeable falloff in calling effort" as well as "confusion and low morale in terms of bank operating strategy."

Said one California manufacturer: "When a problem arose [before the cutbacks began], we would go to the account officer and he would solve it. Now you have to go through several people to get one problem solved."

The discontent extended to customized services that companies no longer received after a budget crunch at their banks. "They closed one branch, so now we must use armored trucks to take money to the bank," an Arizona manufacturer said. □

Big Companies See More Bank Cutbacks...

Percentage having dealt with a bank cutback or staff reduction



Source: *American Banker* Corporate Survey

Corporate America Speaks

Technology

More than half of the companies surveyed offer direct deposit ♦ The larger the company the more likely it is to offer direct deposit ♦ The findings show 29% of the companies surveyed would allow a mobile bank on their premises ♦ A slightly larger group, 32%, say they either have ATMs accessible to employees or would be willing to provide such access ♦ Corporations typically spend $8,025 per month on cash management products.

Direct Deposit Overcomes Obstacles to Gain Acceptance

A firm's propensity to offer direct deposit and to win employees' acceptance grows as company size increases.

BY JEFFREY KUTLER

A majority of the nation's largest companies offer to deposit employees' pay automatically into the individual worker's bank account. And almost half of the employees who have the direct deposit service available take advantage of it.

These findings, from the *American Banker* Corporate America Survey, suggest that direct deposit has overcome obstacles against which other electronic funds transfer services continue to struggle.

The payroll deposit service has entered the mainstream of bank-corporate relationships, though it is not as central to those relationships as more traditional aspects of commercial banking. In many companies, direct deposit has been accepted by the majority of workers. Such companies may go to great lengths to convince those who resist direct deposit to join the fold.

Jeffrey Kutler is an American Banker *reporter in New York.*

Fifty-two percent of the companies surveyed currently offer direct deposit. An additional 15% of these middle-market and larger organizations say they are interested in providing direct deposit, bringing the potential acceptance rate to 67%.

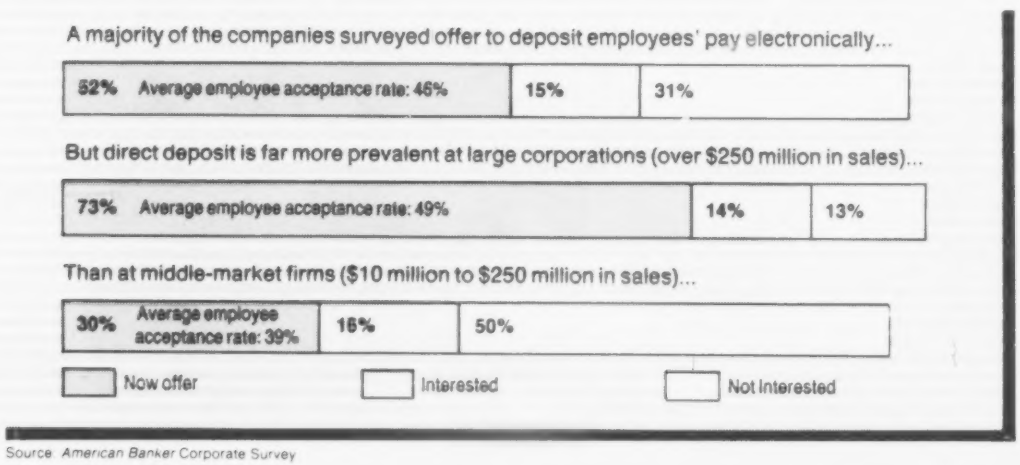
At the average company now offering the service, 46% of employees receive their paychecks electronically. But one in five corporations has an acceptance rate of 75% or greater.

A firm's propensity to offer direct deposit and to win employees' acceptance grows as company size increases, whether measured by annual sales or by number of workers.

Among the beneficiaries of this trend is the automated clearing house network, which, after years of disappointing its promoters, is now increasing its transaction volume by about 30% a year. This year the network is expected to handle 1.2 billion transactions, or about 2% of checks written annually in the United States.

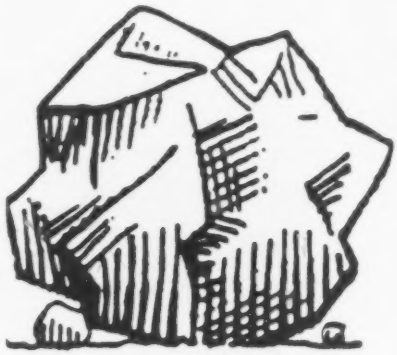
More than half of clearing house pay-

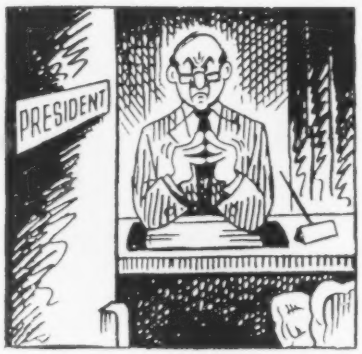
Direct Payroll Deposit


A majority of the companies surveyed offer to deposit employees' pay electronically...
52% Average employee acceptance rate: 46%
15%
31%
But direct deposit is far more prevalent at large corporations (over $250 million in sales)...
73% Average employee acceptance rate: 49%
14%
13%
Than at middle-market firms ($10 million to $250 million in sales)...
30% Average employee acceptance rate: 39%
16%
50%
Now offer
Interested
Not interested

Source: *American Banker* Corporate Survey

RECOGNIZE THE ROCK? HOW ABOUT THE HARD PLACE?





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ments will be some form of direct credit into recipients' accounts — primarily Social Security and other government benefits, and government and private-sector payrolls.

Of 2.16 billion salary payments nationwide in 1986, 163 million, or 8%, were direct deposited, according to market research cited by the National Automated Clearing House Association.

The association, an umbrella group for 42 regional associations that promote such paperless payments, has set a goal of generating one billion new electronic credits in the private sector by 1993.

The *American Banker* Corporate America Survey shows that the clearing houses are on their way to meeting that target.

"Direct deposit seems to be part of an across-the-board trend that reflects a true corporate acceptance of what we have to offer," said William R. Moroney, president of the Washington-based clearing house group.

He said the survey findings confirm his own conclusion that the direct-payment facility is maturing after 15 years of "gestation" that tried the patience of the electronic banking industry.

"A product is usually considered mature when it reaches 50% of its market and then begins to grow very rapidly toward 100%," Mr. Moroney said. "The period between introduction and 50% penetration is the gestation time. Total automated clearing house volume is still only 2% of checks, but in at least some market segments direct deposit has clearly reached a mature stage.

> **"There is no company too small to pay its employees electronically."**

"It is just time for this to happen," he said. "It makes sense. Corporations are getting over their fetish of playing the float and are concentrating on efficiency in cash management and other aspects of their banking and employee relationships. The ACH has begun to really take off as a result."

Varying Degrees of Success

Mr. Moroney said it was his impression — based on conversations with bankers around the country — that the 46% average acceptance rate by employees obscures the fact that some firms do much better, and others have not done much direct depositing at all.

The Corporate America Survey data bear this out. While 20% of the sample reports acceptance rates above 75%, 24% of the companies are below 25%. Fifteen percent of the firms have failed to make more than one-tenth of their paychecks electronic.

Disparities in direct-deposit performance are especially pronounced when middle-market firms — those with $10 million up to $250 million in annual sales — are compared to larger companies.

Above the $250 million threshold, 73% of corporations already offer direct deposit and report an average 49% employee acceptance rate.

Another 14% of these larger firms express an interest in offering the service. That adds up to a potential large-corporate penetration of 87%, 20 percentage points higher than for the entire group surveyed.

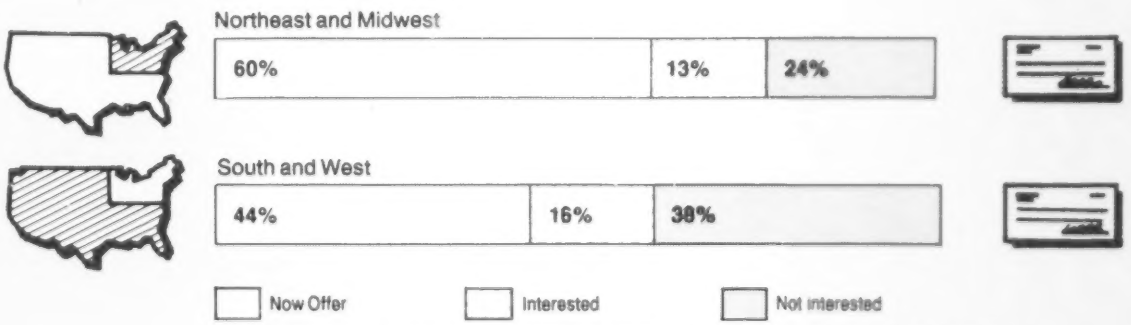
The aggregate figures are depressed by the middle-market segment, in which only 30% of companies currently offer direct deposit and another 16% express interest. Fully 29% of middle-market firms offering the service report acceptance by 10% or fewer employees. This compares to only 9% of the large companies reporting low acceptance rates.

Availability of direct deposit also correlates with the number of employees at a company. In the middle-market group, the service is offered by 23% of companies with fewer than 1,000 employees and by 37% of those with more than 1,000 employees.

At the larger, $250 million-and-over organizations, direct deposit is available from 57% of the relatively few compa-

Direct Deposit of Payroll by Region

Companies in the Northeast and Midwest are more likely to offer direct deposit

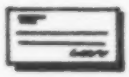


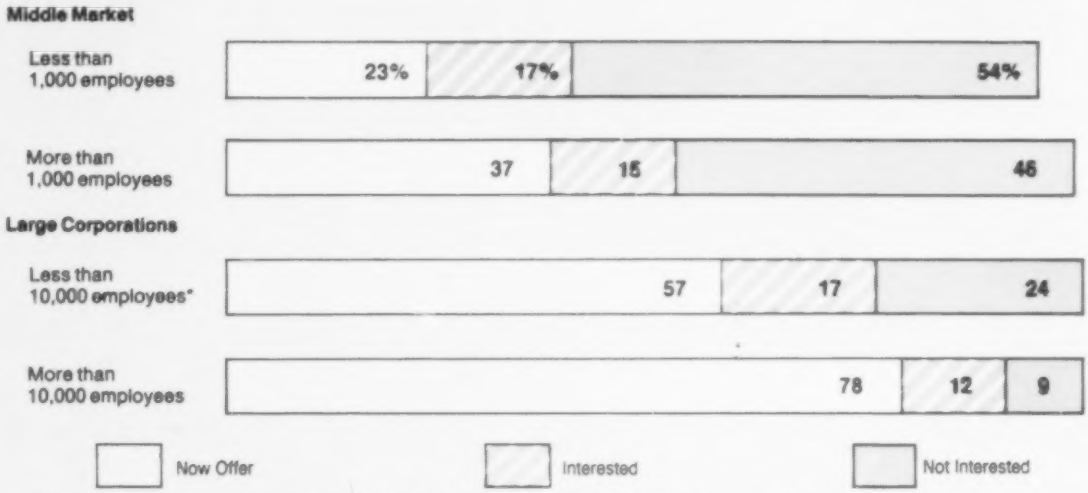
Base: 202 companies in the Northeast and Midwest, 211 in the South and West. Percentages are rounded; 9 answers of "don't know" not shown.

Source: *American Banker* Corporate Survey

Direct Deposit by Size of Workforce

Availability of direct payroll deposit increases with the number of employees.





*With only 46 companies in the group, statistics are less scientifically reliable than in other segments.

Source: *American Banker* Corporate Survey

nies in the survey with fewer than 10,000 employees, and from 78% of the rest.

There are no major statistical variations among industries in their response to direct deposit offerings, but there is a geographical difference. Companies in the Northeast and Midwest are almost 50% more likely than those in the South and West to offer direct deposit. Where 60% of Northeast and Midwest firms provide the service, only 44% offer it in the rest of the country.

The proportion of firms in the South and West not interested in direct deposit — 38% — is significantly higher than the 24% of companies rejecting the idea in the northern regions.

These variations say more about where large companies and their banks are based than about any inherent differences in geography. While a decision to offer direct deposit may be made at corporate headquarters, the payments can be received anywhere via the automated clearing house.

Strong Growth in Midwest

Some of the most aggressive direct deposit promotions have taken place in the Midwest, coordinated by regional automated clearing house associations.

In the six states served by Mid-America Payment Exchange, an Omaha-based clearing house, the number of companies participating in the direct deposit program doubled to 1,857 in 1987. Two-thirds of the companies using automated clearing house services in that region were using direct deposits, and they accounted for 12% of private-sector transactions.

Much of the region's direct deposit growth was the result of banks signing smaller companies, according to an analysis published by Mid-America. This is happening nationwide as bank marketers focus more on middle-market and smaller companies.

"There really is no business too small to pay its employees electronically," said William Nelson, a member of the association's staff who formerly sold automated clearing house services for Mellon Bank, Pittsburgh. "Some companies have literally one person on direct deposit. The payments can be entered into the ACH easily by many of the payroll-service companies on a turnkey basis, or directly by the companies using personal computers."

VOICE OF THE EXECUTIVE

"WE MARKETED [DIRECT DEPOSIT] AS AN EMPLOYEE BENEFIT, A TIME-SAVING CONVENIENCE. WE NEVER POSITIONED IT AS SOMETHING THAT WAS A BENEFIT ONLY TO THE CORPORATION."

— Denise Lynch, disbursements accounting manager with Marion Laboratories Inc.

"Large companies with big numbers of payments gain efficiencies and save money by paying their employees directly," Mr. Moroney said. "The smaller firms may not be able to identify benefits in terms of cost savings, but they would certainly be attracted by the convenience of direct deposit."

Although the opportunities to sell direct deposit are greatest at companies doing less than $250 million in annual sales, the large-corporate market should not be neglected, said John F. Good, executive director of Mid-America. The clearing house, based in Cleveland, serves northern Ohio.

Mr. Good, a tireless promoter of direct deposit both in and out of his region, said many bankers have targeted smaller companies without realizing that some very large direct-deposit accounts have yet to be won at big companies. As examples he cited two *Fortune* 1000 companies — Marriott Corp. and United Air Lines Inc. — which have 250,000 employees between them and make little if any use of direct deposit.

"There is a tremendous market left for this service, and it's not just in the middle market," he said. "I don't think the banks are doing as good a job as they can in marketing it."

Mr. Good suggests to banks in his area that they complement their corporate calling efforts. These efforts are aimed at signing companies to originate direct deposits and other electronic payments, with what he calls "receive side" marketing. He said he would like to see banks market direct deposit to potential recipients of the payments.

"Every week, financial institutions can look at ACH reports that list all originating companies," Mr. Good said. "Banks can identify customers who are not receiving salary deposits from those companies, and market the service to them directly. There is a whole marketing opportunity on the receive side."

The clearing association is also exploring the receive side.

"We are looking to create a mechanism that would allow consumers who work for certain employers to sign up for direct deposit at their banks, perhaps even when they open an account," Mr. Moroney said. "The answer may be a directory that lists the companies that offer direct deposit."

The national association, meanwhile, is preparing to spend $3 million to $5 million on what would be the first coordinated, nationwide campaign to promote direct deposit. Some of the money might be spent on media advertising, the rest on brochures and materials that financial institutions could use locally.

"Maybe we will be lighting the afterburners on something that has already begun to take off," Mr. Moroney said when apprised of the *American Banker* survey results. □

Direct Deposit Sells Itself at Marion Laboratories

When direct deposit is marketed well, the banks' corporate customers play an active role in selling the service. This was the case at Marion Laboratories Inc., Kansas City, Mo., one of the most successful companies at persuading employees to take their pay electronically.

After four years of campaigning, Marion Laboratories is directly depositing paychecks for 85% of its 3,800 employees across the country.

"We marketed it as an employee benefit, a time-saving convenience," said Denise Lynch, disbursements accounting manager for the pharmaceutical firm, which has yearly sales of $750 million. "We never positioned it as something that was a benefit only to the corporation."

Marion got some support from its bank, Boatmen's First National Bank of Kansas City, in the form of brochures, forms, and related materials. But the marketing of direct deposit was very much a company effort.

"We looked at other direct deposit programs and decided that it was best to make it voluntary," Ms. Lynch said. "There is some question about the legality of forcing people to take direct deposit, but I disagree in principle with the idea of making it mandatory. I do support a strong selling job, and that's what we did.

"If you have a good program, it will sell itself," she said.

"Often these programs are rolled out with one-way communication, with the company sending letters and expecting employees to react," Ms. Lynch said. "We recognized that people would have a lot of questions about the service, so we set up lines of communication to address their concerns one-on-one."

The program has won its greatest acceptance — above 90% — among field sales representatives and salaried home-office workers. Hourly and part-time personnel, including many production-line workers, are down in the 66% range and Ms. Lynch has a goal of raising that to 75% within a year. She said her ultimate goal is 100% participation.

— J.K.

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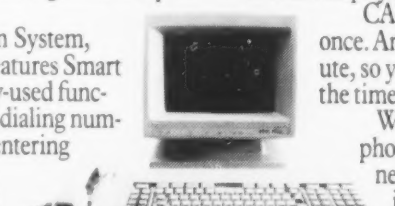

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Businesses Look Favorably At Banking on the Premises

Consumer conveniences such as ATMs and check cashing are potential additions to the traditional commercial banking relationship.

BY JEFFREY KUTLER

Whether it wants to boost employees' morale or keep them close to the office on paydays, about one corporation in three would encourage its workers to bank on the premises, according to the *American Banker* Corporate America Survey.

That finding points to a cross-selling opportunity for banks. Consumer banking conveniences such as check cashing, automated teller machines, and even full-service branches at the workplace are potential additions to the traditional commercial banking relationship.

The survey shows that 29% of companies with at least $10 million in annual sales would allow a mobile bank on their grounds or in their office space.

A slightly larger group — 32% — say they either have ATMs accessible to employees or would be willing to provide such access.

These findings, based on interviews with 413 corporate officials nationwide, show that a sizable minority of companies would play a role in helping banks serve employees. If banks can exploit such opportunities — as a few are trying to do — they might make inroads in an employee benefits market that insurance companies have long dominated.

Providing automatic payroll deposit — available at 52% of all companies in the survey and 73% of those with more than $250 million in annual sales — may give banks an opening for a variety of retail services delivered through the workplace.

One question in the survey presupposed a mobile facility such as the "Banking a la Carte" staffed kiosk that Chemical Bank provides at business offices in the New York area.

Trans Data Corp., a research subsidiary of the *American Banker* that conducted the phone interviews last March and April, obtained consistent reactions to mobile facilities from companies of all sizes.

Of middle-market companies, those with $10 million to $250 million in annual sales, 27% would allow mobile branches. Firms with over $250 million in sales had a 30% favorable response rate. These percentages are equivalent given the statistical margin of error (plus or minus 5% for this part of the sample, and higher for smaller segments of the sample).

The consistency is apparent across industries, with percentages of companies that would admit a mobile bank ranging from 25% in business services to 33% in wholesale and retail trade.

There is no discernible difference between companies employing fewer than 1,000 workers (29%) and more than 1,000 (28%), or between the Snow Belt (Northeast and North Central regions, 30%) and the Sun Belt (South and West, 27%).

There is a slight aberration in the nine northeastern states, from Pennsylvania and New Jersey north to Maine. There, an above-average 35% of 83 respondents said they would allow a mobile bank on their premises. This might be explained by the companies' concern over the time employees need to cash checks at crowded bank branches in the region's cities.

Company executives seem to realize that automated tellers, particularly in tandem with a direct payroll-deposit service, would solve such problems. Employees could get cash from an ATM on payday or any other day.

17% Have ATMs Available

Seventeen percent of all companies surveyed have ATMs on their premises for employee use. The percentage presumably includes firms in office buildings or office parks with one or more centrally located ATMs.

About 15% of companies say they don't have ATMs on the premises but would be interested in providing them.

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bringing the total positive response to 32%.

The largest companies are the most in favor of the idea: 26% of those with more than $250 million in sales have ATMs available, and 19% are interested in providing the service.

Only 7% of middle-market companies have ATMs available, with 11% expressing interest. A similar response came from firms with fewer than 1,000 employees: 9% report ATMs are nearby and 11% would like to have them.

Automated tellers are available at 20% of companies with more than 1,000 employees, while an additional 17% express interest. For companies with more than 10,000 employees, 29% say they have ATMs and 19% say they might add them.

Bankers are indeed placing ATMs at business locations, as part of a continuing effort to install the machines at sites other than bank branches. But ATMs on corporate sites have been less prominent than those at airports, supermarkets, and shopping malls.

Some ATMs placed in what bankers consider untraditional locations, such as airports and hospitals, serve those facilities' employees as much as they do the general public.

"I don't have exact numbers, but I know more and more ATMs are showing up at the workplace," said Linda Fenner Zimmer, an ATM industry trend-watcher based in Marlborough, Conn.

"It's happening," she said, "but quietly. In some cases, a company will ask for an ATM as part of its banking relationship. A bank might work out an arrangement in which the corporation owns or subsidizes the machine."

Several major institutions marketing bank-at-work services have had to resolve such tactical questions as what sites have enough people to justify an ATM or minibranch, how much to charge for it, and which bank department is responsible for the service.

Banks got into the bank-at-work business as an extension of their commercial relationships. For some, the desire to have a presence at corporate sites predated the advent of self-service banking machines.

ATMs are not an important element in Bank-at-Work, First National Bank of Chicago's program, primarily because the Chicago bank has been in that business since 1969, when ATMs were not widespread. Built around the payroll function, Bank-at-Work is offered to Chicago-area companies of virtually any size, from 5 to 5,000 employees, a bank spokesman said.

Although it markets the direct-deposit service to companies, the bank hopes the employees will sign up for a package of banking services at a discount price. Only within the past year and a half has First Chicago installed its first two ATMs in the workplace.

At Chemical Bank the marketing slogan explains the strategy: "Better banking for your employees. Better benefits for your organization."

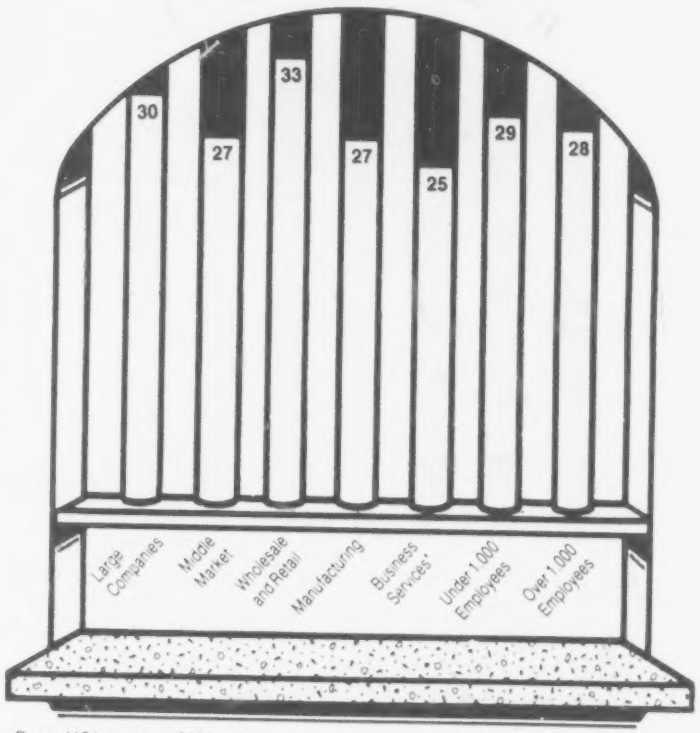
The New York bank developed its workplace service in the early 1980s and created a separate division for it in 1983. ATMs are one aspect of a range of services from basic check cashing to a consumer account package offered to employees at "group rates." The latter might include free checking and a no-fee credit card.

"The Chemical Bank at Work program is meeting a good deal of success, but interest in ATMs tends to fall off when you get into a discussion of the economics," said David Mooney, senior vice president in Chemical's consumer banking group. More interest has been generated by the fully equipped "Banking a la Carte," which Chemical moves into corporate locations on paydays.

"Originally, we viewed this as a way to solve check-cashing problems, but now our focus is on serving the customer, be it the consumer or corporation," Mr. Mooney said. "A lot of companies feel strongly about providing no-cost or low-cost banking services to employees, and they feel an obligation about making sure

Banking on Company Premises

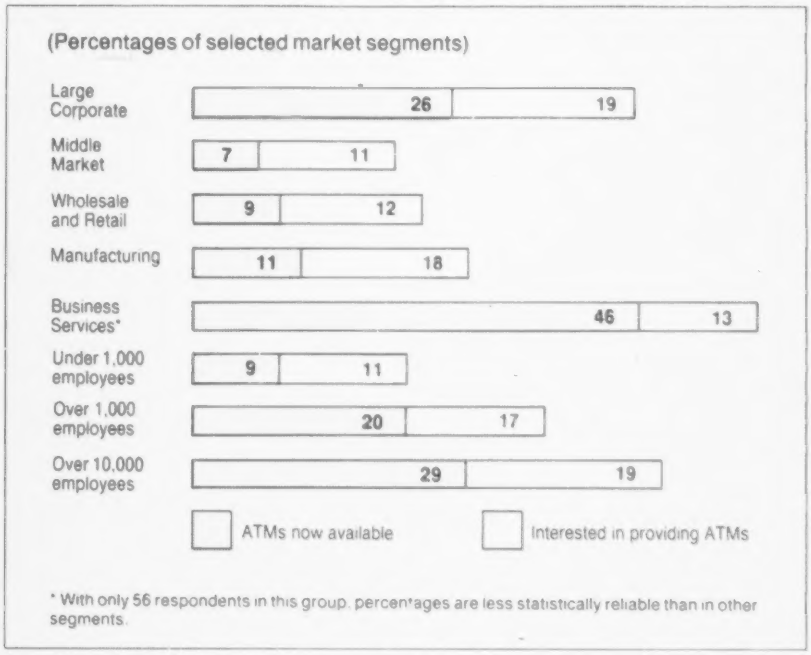
Companies that would allow mobile bank branches on their premises to serve employees (percentages of selected market segments)



Base: 413 large (over $250 million sales) and middle market ($10 million to $250 million sales) companies
*With only 56 respondents in this group, percentage is less statistically reliable than in other segments
Source: *American Banker* Corporate Survey

ATMs on Company Premises

Companies with ATMs on their premises, or interested in providing ATM access



Source: *American Banker* Corporate Survey

employees can cash checks. They are also very concerned about employee productivity.

"We offer ways to meet those needs at very low cost to the companies and their employees," Mr. Mooney said.

Wells Fargo Bank, San Francisco, regards its eight-year-old workplace banking program, called Expresservice, as an important adjunct to its branch and ATM networks, which are among the most extensive in the nation.

The bank has put minibranches at 31 corporate sites in California, said Lisa Worthington, a bank spokeswoman. A customer service representative who opens accounts, sells services, answers questions — but does not handle cash — is present during normal business hours. Cash dispensing and other teller functions are handled by a nearby ATM, which operates at all hours.

Wells Fargo will install Expresservice facilities only at work sites with more than 1,100 people, Ms. Worthington said. Participants in the program include the computer maker Hewlett-Packard Co., several hospitals and medical centers, and the *San Jose Mercury News*.

At Norwest Corp., Minneapolis, assistant vice president Bill Brewer never bought the assumption that corporations might welcome minibranches as an employee convenience but would not pay for ATMs.

Convinced that ATMs are the most efficient alternative for corporate locations with at least 1,500 workers or passers-by, Mr. Brewer offers deals that many large companies in his area have found difficult to pass up. He is actually selling them ATMs.

Like many bank-at-work marketers, Mr. Brewer is reluctant to give the names of companies that have bought ATMs and related support services from Norwest Bank. He did say, however, that they include a large insurance company, a car rental firm, and several manufacturing plants with workforces numbering in the thousands.

The machines are connected to Instant Cash, Norwest's multistate ATM network. The corporations that own the machines receive transaction fees, as would any member bank.

"We put a business case in front of the corporation," Mr. Brewer said, explaining his approach. "We present to them the idea of ownership. We point out that they can generate income from the transactions, and this helps them justify the cost."

Mr. Brewer said Norwest has been marketing workplace ATMs since 1977, when Minnesota law was changed to allow ATM installations away from bank premises. Marketing has intensified in the past few years as ATM prices have fallen. A number of used ATMs, which cost less than new ones and are adequate to the traffic volumes at many corporate locations, have also come on the market.

"I don't think we've had one failure over the years," Mr. Brewer said. "The biggest lesson is that you do not have to give the service away. A corporation can own the machine and profit from it, and it is a service that solidifies the banking relationship."

The willingness of Mr. Brewer's customers to pay is an exception to the rule, said Robert Barone, president of Diebold Inc., a Canton, Ohio, company that is the nation's leading ATM manufacturer. For cost reasons, corporations rarely insist that banks bring ATMs on-site, he said. Eastman Kodak Co. is a rare corporate customer, he said, in that it took such an initiative with Chase Lincoln First Bank of Rochester, N.Y.

"Corporations may willingly pay fees, but, typically, banks push ATM placements as part of a direct payroll-deposit package," Mr. Barone said.

"If corporations had to pay for the ATMs, I don't think the idea would fly," he said. "All they see are soft, hard-to-quantify benefits like time saved or convenience."

Mr. Brewer said attitudes can change if bankers approach the bank-at-work market in a more purposeful, organized way. At most banks, retail and corporate departments remain uncoordinated. Few have groups assigned specifically to selling workplace services.

"In the best of all worlds, we as bankers should be selling payroll, automated clearing house, cash management, lending, and employee banking services to our corporate clients all at once," Mr. Brewer said. "We're not there yet." □

All Eyes Focus on Shrinking The Mountain of Paperwork

Corporations are turning to technology to revolutionize the way they do business with each other.

BY YVETTE D. KANTROW

Corporate treasurers want their banks to supply the weapons for a full-fledged war against paper, according to the *American Banker* Corporate America Survey.

When asked what financial service needs they see emerging or becoming more important for their firms in 1989, a third of the survey respondents cited electronic cash management services. The results are persuasive since the treasurers were not supplied with a list of choices.

Cash management services typically include account reconciliation, balance reporting, cash concentration, disbursement, incoming and outgoing wire transfers, and lockboxes. Although not all respondents named specific services, many did identify electronic data interchange — a relative newcomer to the banking scene.

Electronic data interchange, or EDI, automates the transmission of invoices, payments, and other business records between corporations and their suppliers. Major companies, including Levi Strauss & Co., Hewlett-Packard Co., and General Motors Corp. are turning to the technology to revolutionize the way they do business with and pay their suppliers and customers.

The survey findings are good news for financial institutions whose traditional businesses are falling on harder times. Banks are beginning to view cash management services — once offered at a loss to bring in loan business — as revenue producers.

And companies are willing to spend substantial amounts on these services. In 1987, corporations typically spent $8,025 per month on cash management products, according to Treasury Strategies, a Chicago treasury management consulting firm.

Cash management income has taken on more significance for banks in recent times, as foreign debt reserves and write-offs, coupled with the October stock market plunge, have eroded traditional sources of earnings. Although cash management bankers have the impetus to expand their product lines, cost control may force them to be selective.

In the survey, one-third of the 227 corporate treasurers who identified what services they will need from their banks mentioned cash management or related products. In fact, cash management capabilities were mentioned almost twice as frequently as additional credit.

The survey also shows that corporate treasurers want these services soon. One-fourth of the 227 respondents said they will require cash management products in 1989, while 16% said they will need them within five years.

The popularity of cash management demonstrates how electronic information is fast becoming a marketable commodity. The cash management business was conceived in the 1970s to help corporate treasurers monitor their balances and take advantage of high interest rates. With rates comparatively lower, treasurers now want these services to streamline operations.

EDI services are causing a stir in both the corporate and banking communities. Corporations are debating whether they need or want EDI, and banks are trying to decide what role — if any — they can play in the delivery of such services.

EDI's Dual Structure

Part of what makes EDI a complex issue for banks is the structure of the technology. EDI really consists of two branches — information and payments. Nonbank communications concerns, such as GE Information Services, a unit of General Electric Co., are already helping corporations exchange invoices and issue confirmations of receipt.

Yvette D. Kantrow is an American Banker reporter in New York.

"We're going to need electronic data interchange and the bank will have to furnish us with this."

Many bankers have concluded that they can't get involved until the information-exchange process is perfected and corporations are ready to automate the payment of invoices. One corporate subscriber to this theory is Randall L. Wilds, supervisor of banking relationships for Ford Motor Co. and several of its subsidiaries.

Mr. Wilds, speaking at a recent National Automated Clearing House Association conference, told bankers that the best opportunities for participating in EDI are in "financial transactions accompanied by minimum remittance data, and financial transactions that have no existing, alternative EDI linkage." If he is correct, banks may have to let other entities take the lead in EDI.

Some survey respondents expressed similar attitudes. As the technology matures, more companies will look to their banks to supply electronic payments and data exchange capabilities, said John Gette, a cash manager at Pacific Northwest Bell Telephone Co. in Seattle. In the meantime, a bank's ability to supply EDI services will not be a major competitive factor, he predicted.

Many corporate treasurers, including Mr. Gette, have expressed some degree of interest in receiving payments electronically instead of by check.

A separate Trans Data study conducted last winter revealed that 44% of 486 treasurers at companies with at least $5 million in annual sales have some interest in receiving electronic payments. Of that group, 50 treasurers, or 10% of the total sample, are very interested in the technology, and 148, or 31% of the total sample, are somewhat interested. Only 14 of the treasurers were receiving electronic payments.

Corporate treasurers in that study also demonstrated an interest in paying their bills electronically. Nearly one-third of the 486 treasurers surveyed said they were at least somewhat interested in initiating outgoing payments to their suppliers. Of that group, 16 treasurers, or 3% of the total sample, were very interested in initiating payments, and 121, or 25% of the total sample, somewhat interested. Twenty-one corporations surveyed were initiating electronic payments.

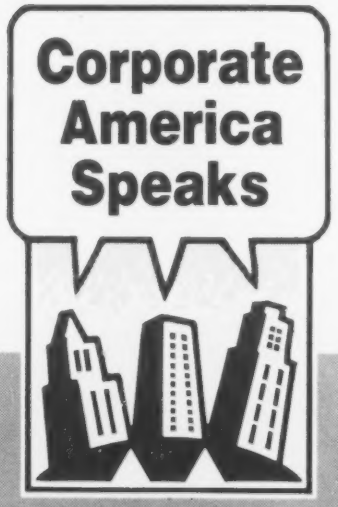
Perhaps corporate interest in automating payments has been fueled by Vendor Express — the U.S. Treasury's program to pay government suppliers electronically. The program, begun in 1987, puts the onus on banks to deliver electronic payments — and more important, the accompanying information — to corporations. Many banks are adding such capabilities.

Corporate treasuries, in general, are well-equipped to embrace electronic services. According to Trans Data, nearly 70% of the treasury departments at 474 firms with sales of at least $5 million had personal computers. "Dumb terminals" — those without any processing capabilities and designed to access other machines — are also popular. More than 40% of the respondents indicated they have that equipment. □

VOICE OF THE EXECUTIVE

"WE ANTICIPATE THAT AS [ELECTRONIC CAPABILITIES] DEVELOP FURTHER, THERE WILL BE A NEED TO MATCH WHAT'S OUT THERE IN THE MARKET TO EXCHANGE FUNDS USING TERMS AND METHODS NEGOTIATED BEFOREHAND."

— John Gette, a cash manager in Seattle at Pacific Northwest Bell Telephone Co.



Investment Banking

U.S. corporations oppose bank underwriting of securities ♦ A full 45% of the companies say commercial banks should be kept out of securities underwriting because they lack experience or expertise ♦ Only about one out of four middle-market companies use investment banking services ♦ Only 4% of large corporations said they have used banks as merger advisers.

Underwriting: Big Firms Say Yea, Smaller Ones Nay

Foes say banks lack expertise in the securities business; proponents cite convenience and increased competition.

BY JED HOROWITZ

The glass, alas, is half empty. Corporations in the United States oppose bank underwriting of securities by a margin of 45% to 38%, according to a survey commissioned by the *American Banker*.

The glass is half full. Treasurers and executives from large corporations — those with annual sales of $250 million or more — favor bank underwriting of securities by a margin of 45% to 42%.

Respondents from bigger companies, those that are most likely to use investment banking services, split 93 to 88 in favor of bank underwriting. Those from smaller firms weighed in 96 to 64 — 47% to 31% — against the activities. Smaller or middle-market firms are defined as those with annual sales volume of $10 million to $250 million.

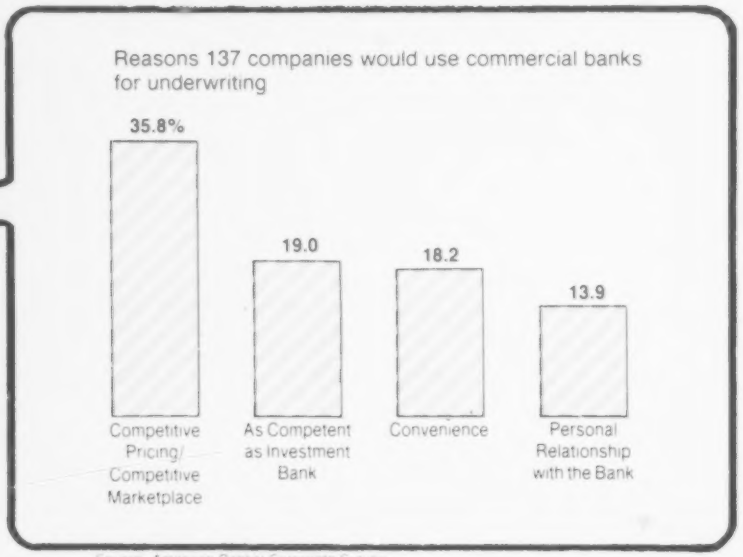
Banking industry officials were not surprised at the results. Most small companies deal with small bankers who have little interest in securities underwriting, said Robert Dugger, chief economist of the American Bankers Association.

In fact, the apathy indicator in the survey is high. Seventeen percent of all respondents had no opinion when asked whether banks should be able to underwrite securities.

The number is even higher when it comes to middle-market firms. Almost one in four of those companies offered no response to the underwriting query, compared with 13% of those from large corporations.

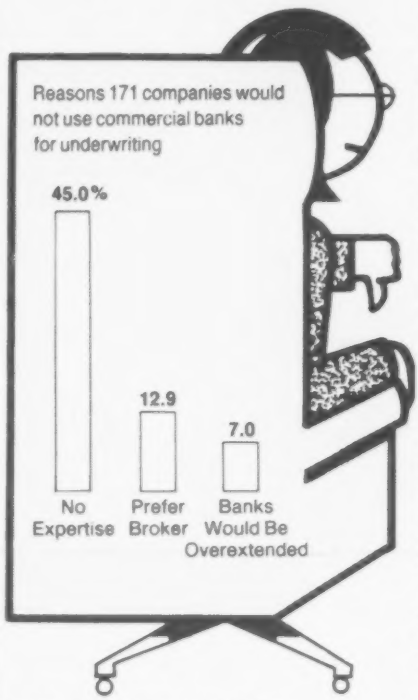
The survey of 413 companies was conducted in March and April by Trans Data Corp., shortly before the Supreme Court upheld a Federal Reserve Board order allowing bank subsidiaries to conduct limited underwriting activities. The new authorization expands banks' un-

Money Talks: Competitive Pricing Would Attract More Business



Source: American Banker Corporate Survey

Catch 22: Firms Won't Use Banks Because Banks Lack Expertise



Source: *American Banker* Corporate Survey

derwriting powers beyond government and some municipal securities. But it still restricts them from underwriting corporate securities.

Lack of Expertise Cited

Opponents of underwriting spoke with a fairly unified voice. A full 45% said commercial banks should be kept out of securities underwriting because they lack experience or expertise — a Catch-22 that is likely to frustrate bankers who are begging to prove their expertise.

"I don't believe banks would know what they were doing," said the treasurer of a $255 million medical company.

Others cited standard arguments relating to safety and soundness.

"You don't want your bank to be exposed to any risks," said the finance manager of an Iowa-based appliances manufacturer with $10 million in sales.

"I believe in the banking system, but if banks could do this it would erode my confidence in the ability of the system to survive," said the self-described "conservative" controller of a $2.4 billion Midwest printing company.

Proponents of bank underwriting gave more diverse responses, but convenience, competence, and competitive pricing were cited most frequently as reasons to permit underwriting by commercial banks.

"It seems kind of a pain to have to go outside to an investment banker when you use a commercial bank for everything else," said Joan Russell, assistant treasurer of Coleman Co., a Wichita, Kan., manufacturer of outdoor recreational products.

Survey respondents were granted anonymity, but some agreed to expand on their remarks in separate interviews.

Coleman, with almost $600 million in annual sales, issues commercial paper. Ms. Russell believes the firm could negotiate better rates if commercial paper were part of a bank package that included credit lines, lockbox services, and other services.

Banks have won the right to underwrite because of their proven "expertise in the movement of money," according to the banking manager of a $540 million Delaware plastics manufacturer. He also said that investment bankers have lost their franchise by default, since several have abandoned low-margin areas of underwriting such as commercial paper and municipal bonds in the past year.

Economic philosophy crept into some responses.

"I'm a free marketeer," said the manager of treasury services at a $350 million Pittsburgh steel manufacturer. "If [banks] can do the job, let them do it."

With equal fervor, the chief financial officer of a $280 million firm in Illinois defended the status quo. Banks, he argued, "need to be tightly regulated and tightly held."

Seventy percent of the corporations that support bank underwriting said they would use commercial banks for the services. In a somewhat more surprising response, 15% of those who opposed bank underwriting also said they would use banks for these services.

"It would probably be cheaper to go that route," said the controller of a $900 million auto importer in New England who opposes bank underwriting.

A small number of respondents assert that commercial banks should have the right to underwrite but said they would not use their services.

"We have a lot more confidence giving our business to investment bankers because they compensate their employees better," said the finance manager at a $400 million Chicago medical center. "They attract more qualified people to work there, and they already have the experience."

Large Banks Are Most Interested

The survey results did not surprise banking industry lobbyists.

"It's the larger superregional and money center institutions that will be able to engage actively in securities underwriting," said Mr. Dugger of the ABA. Those institutions have demonstrated their expertise in underwriting government and other bank-eligible securities, he said.

A survey conducted earlier this year by the Senate Banking Committee found overwhelming support among *Fortune* 500 companies for bank expansion into securities underwriting, Mr. Dugger said.

The New York-based money center banks have apparently succeeded in spreading the underwriting gospel in their own backyard. Forty-nine percent of 83 respondents from the nine northeastern states labeled themselves proponents of bank underwriting. Thirty-six percent were opposed, and almost 15% had no opinion.

Companies in the north-central region — the 12 states spreading from Ohio to North Dakota — were least supportive of bank expansion into securities. Just 31% — 37 of 119 executives — supported bank underwriting. Fifty-two percent said banks should not have underwriting powers. □

Jed Horowitz is an American Banker reporter in New York.

VOICE OF THE EXECUTIVE

"IF BANKS COULD [UNDERWRITE], IT WOULD ERODE MY CONFIDENCE IN THE ABILITY OF THE SYSTEM TO SURVIVE."

— Controller of a $2.4 billion Midwest printing company

Midsize Firms Choose Banks Over Wall Street Establishment

The banks' problem is that few middle-market companies use investment services, while 60% of the large corporations do.

BY JED HOROWITZ

Bankers are right about middle-market firms — they're ripe for the picking. Now all they have to do is convince these corporations they need investment banking services.

Only about one out of four middle-market companies — those with annual sales between $10 million and $250 million — use investment banking services, according to the *American Banker* Corporate America Survey. When these companies do need an investment banker, however, most turn to a commercial bank.

By contrast, almost 60% of larger corporations use investment banking services — and they buy them from traditional investment bankers.

The survey of 413 corporate treasurers and executives was divided almost equally into midsize and large firms, those with sales of $250 million or higher.

Of the total sample, 42% of the respondents said they used one or more of the following services: private placements, interest rate products, recapitalizations, and advice on mergers and acquisitions and leveraged buyouts. All traditionally have been offered by large commercial and investment banks.

Almost 60% of large corporations said they have used one of these services, compared with 25% of the middle-market companies.

Investment banks outpaced commercial banks in providing each service except interest rate protection. Banks, which traditionally dominate the currency and interest rate markets, were pioneers in the creation of swaps, caps, and collars that developed as outgrowths of these markets.

Fifty-seven percent of the 68 companies that use interest rate protection products said they buy them from commercial banks. An additional 17% said they buy the swap products from both commercial and investment banks.

In every other category, corporate clients said they are more likely to choose "other institutions," presumably investment banks, for investment banking services.

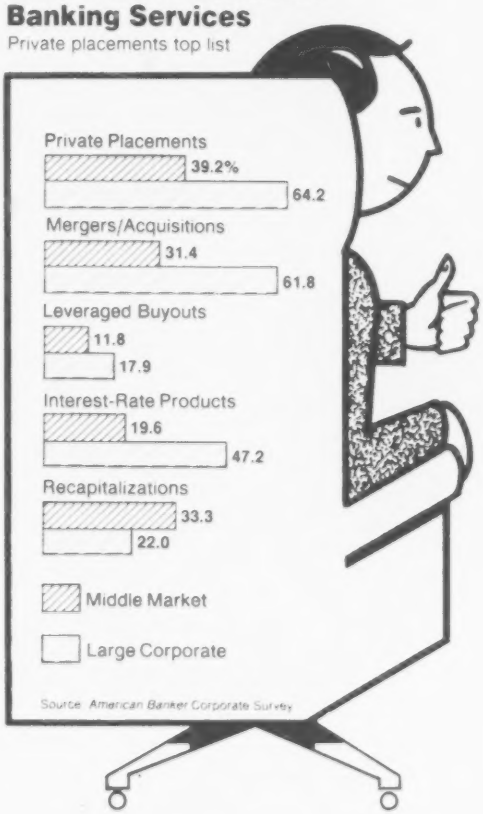
The responses become more interesting when separated into the large and midsize firms.

Middle-market companies that use investment banking services usually buy them from commercial banks. When it comes to advice on mergers and acquisitions, however, even these firms depend on the prowess of investment bankers.

Larger firms, by contrast, turn to insti-

Most Used Investment Banking Services

Private placements top list



tutions other than commercial banks for four out of five investment banking services. They buy their interest rate protection from commercial banks, however, by a margin of 57% to 22%.

Although commercial banks have grabbed headlines this year for some large merger deals, only 4% of large corporations said they used banks as merger advisers. Almost 23% of large companies and 50% of middle-market firms, on the other hand, purchased leveraged buyout services from commercial banks, presumably because banks also provide much of the credit for these debt-laden deals.

Fifty-six respondents said they purchased investment banking services other than the five specified. By a 77% to 8% margin, they turned to "other institutions" rather than commercial banks for these unnamed services.

Respondents picked private placements above every other category when asked for their most important investment banking need. If leveraged buyout advice and structuring is folded into the mergers and acquisition category, however, it emerges as the most frequently used service. Interest rate products were used by only 39% of respondents — 47% of large firms and 20% of small firms.

One of every four respondents said he or she has needed help with recapitalizations. Eleven of the 17 middle-market firms that did recaps went to commercial banks for help in structuring the deals. Just five of 27 large firms went solely to commercial banks for recap help, although another five said they used both commercial banks and investment banks on recaps.

Broken down by business type, the survey showed that only 23% of wholesale firms, selling both durable and nondurable goods, use investment banking services.

Retail businesses — including department stores, groceries, furniture stores, and restaurants — also are candidates for aggressive investment bankers. Only 21 of 64 respondents interviewed — 33% — said they used investment banking products.

Half of the 119 manufacturing firms interviewed, 59 respondents, said they use investment banking services.

But highly regulated industries are the heaviest users of investment banking services. Sixty-two percent of respondents in the transportation and communications industries said they use investment banking services.

Companies that provide business services — including hotels, auto repair businesses, entertainment companies, and health and legal service firms — also are fairly heavy users. Forty-eight percent said they use investment banking services. □

Opportunity For Banks?

Companies not using investment banking services

Source: *American Banker* Corporate Survey

Investment Banking: Slugging It Out

Who provides investment banking services?

	Commercial Bank	Another Institution	Both
Private Placements	20.2%	59.6%	18.2%
Large Firms (79 responses)	12.7	64.6	22.8
Middle-Market Firms (20)	50.0	40.0	--
Mergers/Acquisitions	9.8	71.0	10.9
Large Firms (76)	3.9	84.2	11.8
Middle-Market Firms (16)	37.5	43.7	6.3
Leveraged Buyouts	28.6	49.2	25.0
Large Firms (22)	22.7	45.0	31.8
Middle-Market Firms (6)	50.0	33.3	--
Interest Rate Products	57.4	20.6	17.6
Large Firms (58)	56.9	22.4	19.0
Middle-Market Firms (10)	60.0	10.0	10.0
Recapitalizations	36.4	40.9	13.6
Large Firms (27)	18.5	55.6	18.5
Middle-Market Firms (17)	64.7	17.6	5.9

Source: *American Banker* Corporate Survey

Firms Don't Fret that Banks Will Fund a Hostile Takeover

Headline-grabbing deals by Morgan Guaranty and Citibank, which financed raids on long-term customers, have not eroded trust in bankers.

BY JED HOROWITZ

Corporate Americans are trusting souls. By an overwhelming margin of 95% to 4%, treasurers do not worry that their banks will finance hostile takeovers of their companies.

The vote of confidence came in a survey conducted for the *American Banker* in March and April, only months after two money center banks grabbed headlines with their takeover activities.

In January, J.P. Morgan & Co. helped advise and finance F. Hoffmann-La Roche & Co.'s unsuccessful bid for Sterling Drug Inc. Sterling chairman John M. Pietruski accused the bank of "unethical conduct in aiding and abetting a surprise raid on one of its longtime clients."

A few months earlier, Citicorp had been fired by two clients — Gillette Co. and Dee Corp., a British supermarket chain — after the bank helped finance hostile bids against the companies.

More recently, the chairman of Interco Inc. blasted Chase Manhattan Corp. for leading a $1.23 billion credit facility to finance a hostile bid of Interco. The company said it will sever ties with Chase, which it termed its principal international banker, for abusing its "preeminent position of trust and confidence."

Nevertheless, the survey uncovered only a handful of corporate executives who fret about turncoat banks.

Larger companies tend to worry about the issue more than smaller ones, but they are hardly running scared. Twelve of 206 respondents at the bigger firms, those with sales of $250 million or more, said they fear bank-financed takeovers. Four out of 205 middle-market respondents expressed similar fears.

Are companies too complacent about the issue? Approximately 9% of banks' total loan commitments are made to finance mergers and acquisitions and leveraged buyouts, according to a study of 40 banks made by Loan Pricing Corp.

Several of the companies that indicated distress over their banks' role in hostile takeovers have themselves been put in play by hostile acquirers.

"Banks know more about us than anybody," said the treasurer of a $1.8 billion Midwest construction company that has used Morgan as a lead banker. "They're in a very good position to finance a hostile takeover if there is not a good stone wall, Chinese Wall, or whatever you call it." He was referring to the barriers that financial institutions are supposed to be erect between investment banking, trading, and loan functions.

Some corporate officials put themselves in their bank's place when it comes to hostile deals — and that's what scares them.

"Considering our size, someone taking us over would have to be a huge company whose relationship would have to be more important to the bank than we are," said the assistant treasurer of a $600 million manufacturer in Kansas. "I don't think our relationship with the bank would be particularly meaningful in comparison."

Asked what they are doing with their principal banks to prevent hostile takeovers, a number of respondents said "nothing." A treasurer at a small firm in Michigan meekly declared, "We are trying to be a dedicated customer."

A few firms believe that the best defense is a persistent offense.

"We talk to them a lot," said the assistant treasurer from the Kansas firm.

"We're maintaining close contact with senior management," added the treasurer of a large New England manufacturer that recently repelled a hostile bid.

Only one respondent, from a $3.3 billion Pennsylvania firm, would play hardball. According to the treasurer: "We would be less likely to use a bank that had done this before."

A colleague at another $3 billion Pennsylvania manufacturer said his firm has taken some specific action. "We're having discussions as to where banks should draw the line as a lender and an investment banker."

Opportunities Seen for Banks As Securitization Matures

The next few years will be banner ones for securitization, predicts Richard Benson, president of Structured Finance Advisory.

BY LISABETH WEINER

Securitization may now be the purview of only a small number of nonfinancial companies, but this fledgling market has the potential to develop into a major source of corporate financing.

To handle the deals, companies favor commercial banks, according to the *American Banker* Corporate America Survey.

About 8% of the companies that responded to the survey said they have securitized assets. An additional 9% are interested in doing so in the future.

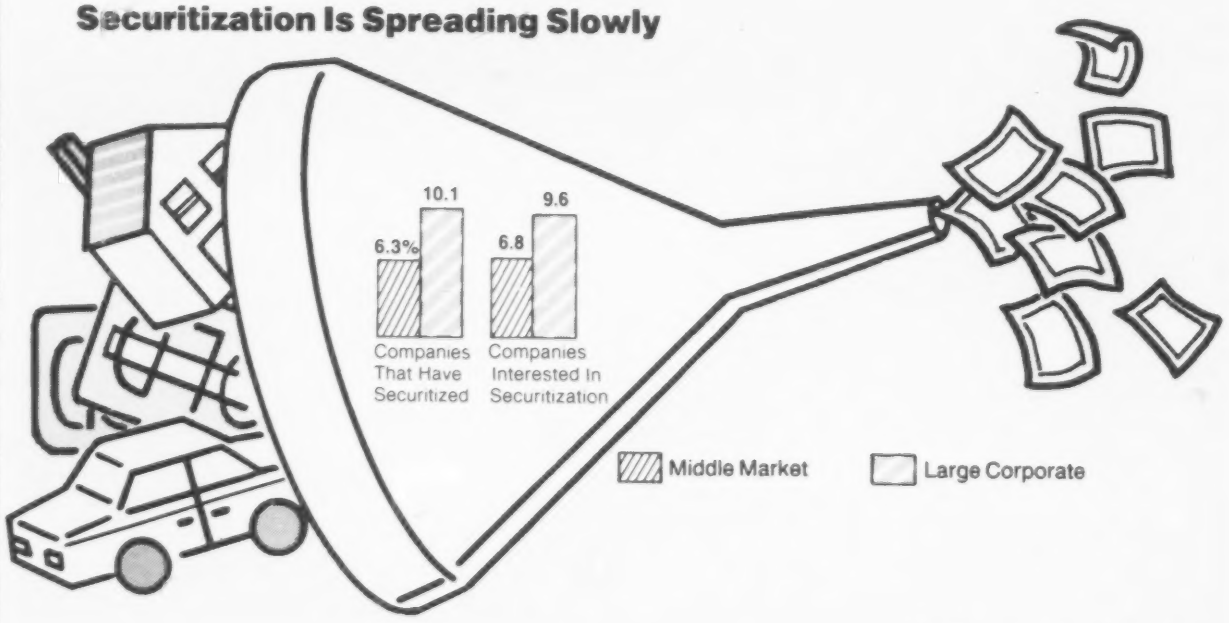
Of those companies that have securitized or stated such an interest, 47.1% would prefer having commercial banks handle the job, while 20.6% favor investment banks. A quarter of the group chose both types of financial institutions.

Securitization is the bundling of assets, such as credit card receivables, computer leases, or automobile receivables, into a marketable security. The process has its roots in the Ginnie Mae pass-through developed by the Government National Mortgage Association nearly 20 years ago. The pooling of other types of assets began about two years ago and is used mostly by banks and thrifts to remove assets from their books and to free up precious capital.

Nonfinancial companies use securitization to raise funds while improving asset ratios.

The costs associated with securitization, such as legal fees and underwriting fees, remain high, causing firms to move cautiously. Premiums of about 25 basis points are being paid to entice investors, an indication of a general unfamiliarity

Securitization Is Spreading Slowly



Source: *American Banker* Corporate Survey

with the market.

Asset securitization clearly has not yet achieved broad-based acceptance, but it has the potential to become a substantial and critical form of financing, say executives and industry experts.

Richard Benson, president of Structured Finance Advisory, a consulting firm in New York, said the next few years will be banner ones for securitization.

"The key background has been developed on many types of transactions," he said. "More issuers are becoming aware of the significant benefits, and investors are becoming comfortable with the performance and characteristics of the securities."

The survey found that 6.3% of middle-market companies, with annual sales of $10 million to $250 million, have securitized assets, while 7.3% expressed interest in the transaction. Among large firms, with sales over $250 million, 10.1% have securitized and 10.8% are interested.

"If you don't need to raise cash, then you wouldn't need to securitize," said Julie Schlueter, a vice president with Duff & Phelps Inc., Chicago. "Also, the start-up is still a little expensive, so it's not very efficient for smaller companies. They're waiting for companies like Sears to lay the groundwork, and then as it becomes more common it should become cheaper."

Even Minneapolis-based Dayton-Hudson Corp., a retailer with its own credit card and sales of about $8 billion, has no plans for a securitization. "It hasn't made sense," the spokesman said, "although the issue comes up from time to time."

To securitize, companies must also have the right type of assets.

"Exxon can't securitize its oil wells," said Desmond Wong, director of corporate finance for Sears, Roebuck and Co. A company needs to have "reliable, predictable cash flows," he said.

"A manufacturing company may have receivables of $100 million, but those don't pay interest at 19%," Mr. Wong said. "Our receivables do. That's where reliable, predictable cash flows come in."

Sears has nearly 80 years of credit experience, with its consumer credit dating back to 1911. "We know how our credit behaves through a depression, recessions, World War I, World War II," said corporate treasurer Robert Gurnee. "The predictability is there."

In June, the Chicago-based retailer issued $500 million of securitized credit card receivables. With a portfolio of $18 billion, the "odds are pretty good we'll do another deal this year," Mr. Gurnee said. "As the market grows, so will the number of people getting into it. No doubt, this will become a major form of financing."

While he has been very pleased with the way the securities have performed thus far, Mr. Gurnee admits the spade work on the deal was time-consuming and highly detailed. Before the issue went to market, both Mr. Gurnee and Mr. Wong took their message across the country, explaining the deal and drumming up interest.

One appeal of the securities has been high yields. Sears sold its securitized receivables at 65 basis points over the 2½-year Treasury note rate, but Mr. Wong says it could borrow at about 40 basis points over the Treasury rate. "That premium will disappear as securitization becomes more common," he said.

Mr. Wong was not surprised to learn that less than 10% of the companies surveyed had bundled assets. "There are a whole lot more companies out there than companies with the types of assets that can be securitized," he said.

Phoenix-based Talley Industries Inc., which has annual sales of about $300 million and businesses that include government contracts, is keeping an open mind about securitization. "We have not done one, but we've talked about it recently," said treasurer Dan Mullen. "It would be a way to lower our debt funding costs."

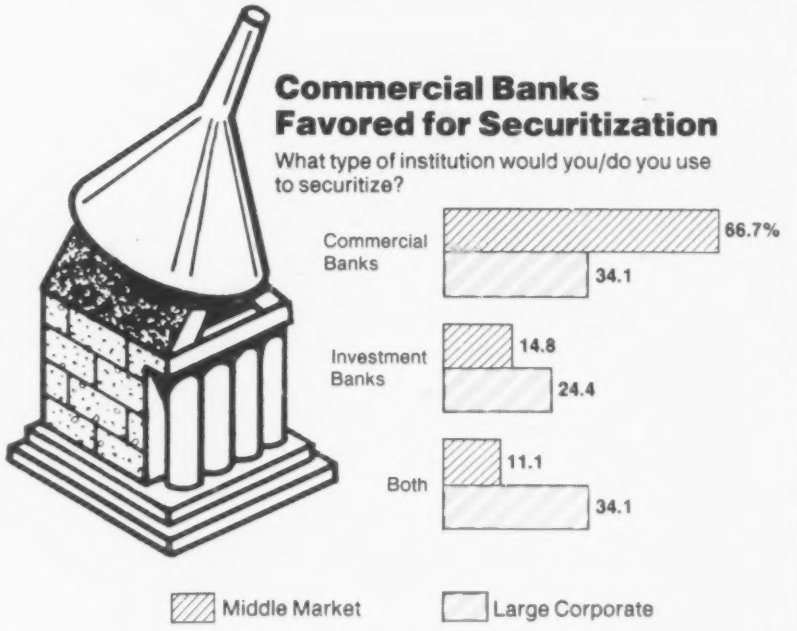
Mr. Mullen would like to securitize government receivables, such as Defense Department payments. Although he would consider proposals from both investment banks and commercial banks, he would favor using a commercial bank to structure the deal.

"They've just been more active in approaching us about this, from my perspective," Mr. Mullen said.

Banks appear to have more of an advantage with smaller companies in structuring a securitization deal. Of the middle-market companies surveyed, 66.7% favored commercial banks to arrange the transaction, 14.8% named investment banks, and 11.1% said both.

Financial officers from large companies favored commercial banks by a slimmer margin. Of the companies with more than $250 million in annual revenues, 34.1% selected commercial banks, 24.4% picked investment banks, and 34.1% said both.

Mr. Wong said it makes sense for middle-market or smaller companies to favor commercial banks. "They typically do not have an ongoing, mature relationship with an investment bank," he said.



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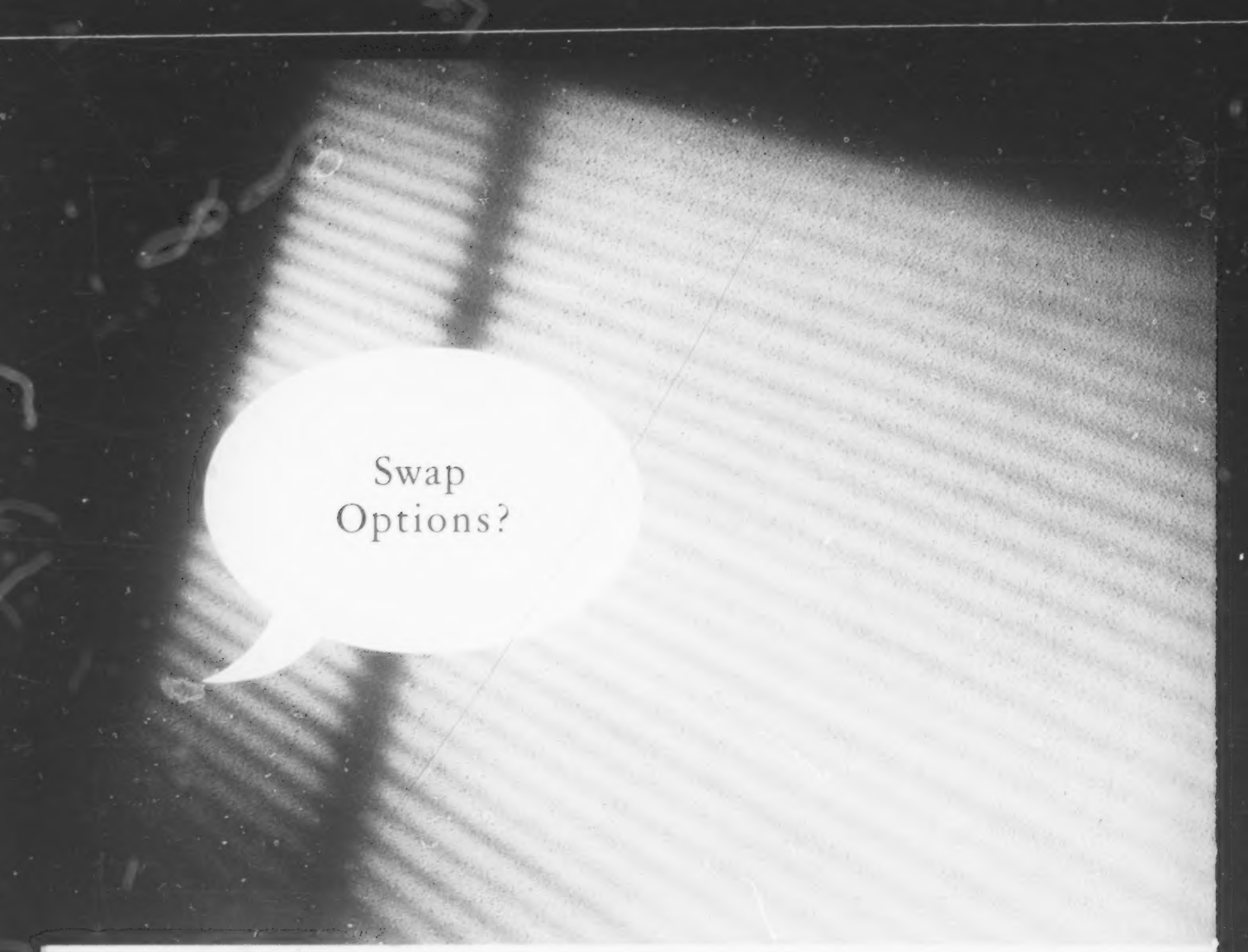

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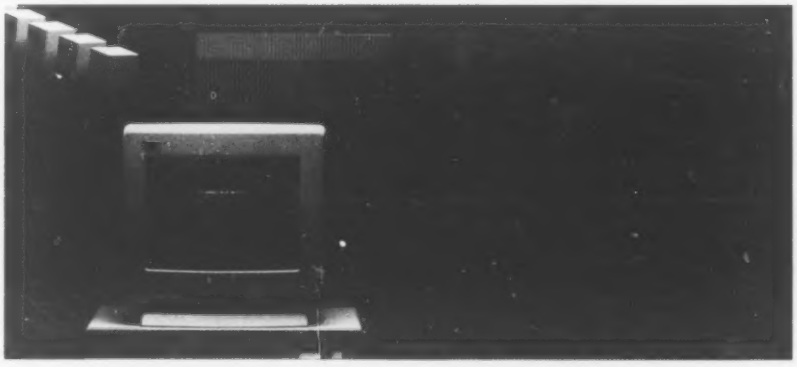

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